

BEFORE THE
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:

PEOPLES GAS LIGHT & COKE
COMPANY and NORTH SHORE GAS
COMPANY

) Nos. 09-0166
) 09-0167 (Cons.)

Proposed general increase in natural gas rates. (Tariffs filed on February 25, 2009.)

Chicago, Illinois
August 26, 2009

Met pursuant to notice at 9:30 a.m.

BEFORE :

MS. EVE MORAN and MS. LESLIE HAYNES,
Administrative Law Judges.

APPEARANCES :

FOLEY & LARDNER, LLP, by
MR. JOHN RATNASWAMY, MR. CHRIS ZIBART
and MR. BRAD JACKSON
MS. CARLA SCARSELLA
321 North Clark Street, Suite 2800
Chicago, Illinois 60654

- and -

MS. MARY KLYASHEFF
130 East Randolph Drive
Chicago, Illinois 60601

- and -

CHICO & NUNES, PC, by
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Appearing for North Shore Gas Company
and The Peoples Gas Light & Coke Company;

1 APPEARANCES: (CONT'D)

2 MR. JOHN FEELEY, MR. CARMEN FOSCO
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3 160 North LaSalle Street, Suite C-800
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4 Appearing for Staff of the
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7 AMANDA C. JONES and CATHY YU
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8 Chicago, Illinois 60601
Appearing for Interstate Gas Supply of
9 Illinois, Inc.;

10 MR. JOSEPH E. DONOVAN
11 111 Marketplace
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12 Division, LLC;

13 ROWLAND & MOORE, LLP, by
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14 200 West Superior Street, Suite 400
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15 Appearing for Dominion Retail, Inc., LLP;

16 MR. RONALD JOLLY and
MS. SUSAN CONDON
17 30 North LaSalle Street, Suite 900
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18 -and-
MR. CONRAD REDDICK
19 1015 Crest Street
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20 Appearing for the City of Chicago;

21 MS. JULIE SODERNA
309 West Washington Street, Suite 800
22 Chicago, Illinois 60606
Appearing for the Citizens Utility Board;

1 APPEARANCES: (CONT'D)

2 MS. KAREN LUSSON

MS. KRISTIN MUNSCH

3 100 West Randolph Street, 11th Floor

Chicago, Illinois 60601

4 Appearing for the People of the State of
Illinois.

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SULLIVAN REPORTING COMPANY, by

21 Steven T. Stefanik, CSR

Barbara Perkovich, CSR

22 Alisa Sawka, CSR

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|----|-------------------|---------------|--------------|----------|---------------|--------------|-----------------|-----|--|
| 1 | | <u>I</u> | <u>N</u> | <u>D</u> | <u>E</u> | <u>X</u> | | | |
| 2 | <u>Witnesses:</u> | <u>Direct</u> | <u>Cross</u> | | Re- | Re- | By | | |
| | | | | | <u>direct</u> | <u>cross</u> | <u>Examiner</u> | | |
| 3 | JAMES CRIST | 544 | 557 | | 578 | | | 577 | |
| 4 | EDWARD DOERK | 582 | 587 | | | | | | |
| 5 | | | 608 | | 638 | 642 | | | |
| 6 | JOHN HENGTGEN | 648 | 655 | | | 644 | | | |
| 7 | SHARON MOY | 677 | | | | | | | |
| 8 | MICHAEL McNALLY | 684 | 687 | | | | | 696 | |
| 9 | DIANNA HATTHORN | 702 | 706 | | 699 | 700 | | | |
| 10 | MIKE OSTRANDER | 743 | 711 | | 736 | 739 | | | |
| 11 | BONITA PEARCE | 754 | 747 | | | | | | |
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|----|------------------------|---------------------------|--------------------|
| 1 | <u>E X H I B I T S</u> | | |
| 2 | <u>Number</u> | <u>For Identification</u> | <u>In Evidence</u> |
| 3 | IGS | | |
| | #1 and 2 | | 547 |
| 4 | NS | | |
| | #ED 1.0 | | 586 |
| 5 | #JH-1.0 | | 655 |
| | #NS SM 1.0,1.1 | | 681 |
| 6 | PGL | | |
| | #Ed 1.0 | | 586 |
| 7 | #JH 1.0 | | 655 |
| | #SM 1.0,1.1 | | 681 |
| 8 | NS/PGL | | |
| | #ED 2.0 | | 586 |
| 9 | #ED 3.0 | | 586 |
| | #JH 2.0&JH 3.0 | | 655 |
| 10 | #2.0&3.0 | | 681 |
| | #24 | 730 | 735 |
| 11 | #25 | 758 | 758 |
| | ICC | | |
| 12 | #19 | 614 | 637 |
| | #20 | 618 | 637 |
| 13 | #7.0R,7.1-7.821.0 | | 687 |
| | 21.1 & 21.2 | | 687 |
| 14 | #4.0&17.0 | | 746 |
| | #2.0&16.0 | | 757 |
| 15 | STAFF | | |
| | #22 | 682 | |
| 16 | #1&15 | | 705 |
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1 JUDGE MORAN: Pursuant to the direction of the
2 Illinois Commerce Commission, I call Docket
3 No. 09-0166, 09-0167 being consolidated. This is
4 North Shore Gas Company and the Peoples Gas, Light
5 and Coke Company. It's a proposed general increase
6 in rates for gas service.

7 May I have the appearances for the
8 record, please.

9 MS. KLYASHEFF: Appearing for North Shore Gas
10 Company and the Peoples Gas Light and Coke Company,
11 Mary Klyasheff, 130 East Randolph Drive, Chicago,
12 Illinois 60601.

13 MR. ZIBART: Also appearing for North Shore Gas
14 Company and the Peoples Gas Light and Coke Company,
15 Christopher Zibart, John Ratnaswamy and Carla
16 Scarsella, Foley and Lardner, LLP, 321 North Clark
17 Street, Chicago, 60654.

18 MR. EIDUKAS: Also appearing on behalf of the
19 utilities, Theodore T. Eidukas and Jerry Brown of
20 Eidukas and Nunes. And that's E-i-d-u-k-a-s, 333
21 West Wacker Drive, Suite 1800, Chicago, Illinois
22 60606.

1 MS. McNEILL: Appearing on behalf of Staff
2 witnesses for the ICC, Megan McNeill, John Feeley
3 and Carmen Fosco, 160 North LaSalle, C-800,
4 Chicago, Illinois 60601.

5 MR. TOWNSEND: On behalf of Interstate Gas
6 Supply of Illinois, Inc., a member of the Retail
7 Gas Suppliers, the law firm of DLA Piper, LLP,
8 U.S., 203 North LaSalle, Suite 1900, Chicago,
9 Illinois 60601 by Christopher J. Townsend,
10 Christopher N. Skey, Amanda C. Jones and Kathy Yu.

11 MR. MOORE: On behalf of Dominion Retail, Inc.,
12 a member of the Retail Gas Suppliers, Steven Moore,
13 the law firm of Rowland and Moore, LLP, 200 West
14 Superior Street, Suite 400, Chicago, Illinois
15 60654.

16 MS. MUNSCH: On behalf of the People of the
17 State of Illinois, Karen Lusson and Kristin Munsch,
18 M-u-n-s-c-h, 100 West Randolph Street, 11th Floor,
19 Chicago, Illinois 60601.

20 JUDGE MORAN: Are there any other appearances?

21 MR. REDDICK: Behind the --

22 JUDGE MORAN: Oh, jeez.

1 MR. REDDICK: -- chart, yes.

2 Appearing for the City of Chicago,
3 Ronald Jolly and Susan Condon, 30 North LaSalle,
4 Suite 900, 60- -- Chicago 60602, and
5 Conrad Reddick, 1015 Crest Street, Wheaton Illinois
6 60189.

7 JUDGE MORAN: Thank you.

8 And I guess those are all the
9 appearances; am I correct?

10 Yes.

11 I guess we can start right off with our
12 witness examination schedule. And the first
13 witness up on the list is James Crist. And I'm
14 going to turn to his attorney, Chris Townsend.

15 MR. TOWNSEND: If you'd like to swear in the
16 witness, please.

17 JUDGE MORAN: Yes.

18 MR. TOWNSEND: Thank you.

19 (Witness sworn.)

20 JUDGE MORAN: Thank you.

21

22

1 JAMES CRIST,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY

6 MR. TOWNSEND:

7 Q. Good morning, Mr. Crist.

8 Do you have before you what has been
9 previously marked as RJ -- RGS Exhibit 1.0 entitled
10 The Direct Testimony of James L. Crist, along with
11 Attachment RGS Exhibit 1.1?

12 A. Yes, I do.

13 Q. And was this prepared under your direction
14 and control?

15 A. Yes, it was.

16 Q. Do you intend for this to be your prefiled
17 testimony in this case?

18 A. Yes.

19 MR. TOWNSEND: I'd note for the record, your
20 Honors, that this was timely filed on June 10th,
21 2009 on the Commission's e-Docket system.

22 BY MR. TOWNSEND:

1 **Q.** Mr. Crist, do you also have before you what
2 was previously marked as RGS Exhibit 2.0, REV,
3 entitled Revised Rebuttal Testimony of James L.
4 Crist, along with Attachments RGS Exhibit 2.1, RGS
5 Exhibit 2.2 and RGS Exhibit 2.3?

6 **A.** Yes.

7 **Q.** And was this prepared under your direction
8 and control?

9 **A.** Yes, it was.

10 **Q.** Do you intend for this to be your prefiled
11 rebuttal testimony in this case?

12 **A.** Yes, I do.

13 MR. TOWNSEND: Your Honors, I'd note for the
14 record that both RGS Exhibit 2.1 and Exhibit 2.2
15 are marked proprietary in the versions that were
16 filed on e-Docket and that you have before you; but
17 by agreement of the parties, neither RGS
18 Exhibit 2.1 nor RGS Exhibit 2.2 need to be treated
19 as confidential.

20 The rebuttal testimony was timely filed
21 on August 4th, 2009; subsequently on August 24th,
22 2009, the revised rebuttal testimony was filed on

1 e-Docket along with an errata that identified the
2 revisions.

3 With that, I'd move for the admission of
4 RGS Exhibits 1.0, 1.1, 2.0, REV; 2.1, 2.2, and 2.3.

5 JUDGE HAYNES: Were the attachments also refiled
6 on August 24th?

7 MR. TOWNSEND: No, they were not.

8 JUDGE HAYNES: So what was the file date of the
9 attachments?

10 MR. TOWNSEND: The attachments were filed -- I'm
11 sorry. Exhibit 2.2 is -- 2.2 revised. It was
12 filed on August 20th, 2009.

13 Exhibit -- so if we go through these,
14 Revised Exhibit RGS Exhibit 2.0, REV, was filed on
15 August 24th. RGS Exhibit 2.1 was filed on
16 August 4th. RGS Exhibit 2.2, revised, was filed on
17 August 20th. RGS Exhibit 2.3 was filed on
18 August 4th, and RGS Exhibit 2.4 was also filed on
19 August 4th.

20 JUDGE MORAN: Are there any objections to any of
21 these exhibits as identified by counsel?

22 Hearing none, they're all admitted.

1 (Whereupon, IGS
2 Exhibit Nos. 1 and 2 were
3 admitted into evidence as
4 of this date.)

5 JUDGE MORAN: However, Mr. Townsend, I'm going
6 to do with your witness what we've done with
7 previous witnesses where there are a lot of
8 different revisions on different dates and it just
9 complicates everything and we want to keep this
10 record as straight as possible.

11 MR. TOWNSEND: We appreciate that.

12 JUDGE MORAN: So I'm going to ask you to do one
13 more filing that includes --

14 JUDGE HAYNES: 2.0, 2.1, 2.2 and 2.3 all --

15 MR. TOWNSEND: And 2.4.

16 JUDGE MORAN: And 2.4 in their revised form.

17 MR. TOWNSEND: I think that 2.4 was probably the
18 erratas; is that correct?

19 MR. SKEY: It wasn't marked an exhibit --

20 MR. TOWNSEND: Oh, we only marked through 2.3?
21 Okay. So it is just through 2.3.

22 JUDGE MORAN: Yeah, because nobody wants to keep

1 track of all the changes on your --

2 MR. TOWNSEND: Okay. And with that, we'll

3 actually remove the proprietary label that's on --

4 JUDGE MORAN: Fine.

5 MR. TOWNSEND: -- the 2.1 and 2.2, just so that

6 that's perfectly clear.

7 JUDGE MORAN: Excellent.

8 MR. TOWNSEND: Oh, there is? I'm sorry. There

9 is a 2.4. So we'll file all of the appropriate

10 documents and report back to your Honors the date

11 on which that is filed.

12 JUDGE MORAN: Thank you.

13 MR. TOWNSEND: Thank you.

14 JUDGE MORAN: And with what went on yesterday, I

15 believe that there is additional testimony that

16 Mr. Crist is going to be bringing in this morning.

17 MR. TOWNSEND: Yes. Thank you, your Honors.

18 With regard to the RGS Cross Exhibit

19 Dobson 15, do your Honors have that available or do

20 you need an additional copy?

21 JUDGE MORAN: That was the cross exhibit?

22 MR. TOWNSEND: That was the cross exhibit.

1 JUDGE MORAN: Yes, I remember that. I know
2 exactly what you're talking about.

3 JUDGE HAYNES: We have it.

4 JUDGE MORAN: Hm-hmm.

5 MR. TOWNSEND: Does counsel have a copy?

6 MS. KLYASHEFF: If I can get a copy from you.

7 BY MR. TOWNSEND:

8 Q. Mr. Crist, have you had an opportunity to
9 review RGS Cross Exhibit Dobson 15?

10 A. Yes, I received it yesterday and reviewed
11 it last evening.

12 Q. Can you please explain what that document
13 appears to be?

14 A. Yes, it relates to the issue of the
15 evaluating how company-owned assets are used to
16 provide service to both sales customers and to
17 Choices For You customers on peak days.

18 Q. Did you present an analysis related to that
19 in your rebuttal testimony?

20 A. Yes, I did.

21 In my rebuttal testimony, I submitted an
22 exhibit -- two exhibits, actually. Exhibit 2.1,

1 which was a table which Mr. Dobson's exhibit takes
2 off of, and then 2.2, which is the bar chart. And
3 we have that large bar chart rendering up on the
4 easel.

5 And those exhibits illustrated my
6 analysis of company-owned assets and how they're
7 used to provide peak day services for Choices For
8 You customers and for sales customers.

9 **Q.** What was the point that you were making in
10 that analysis?

11 **A.** In my analysis, I was illustrating that
12 although customers, both sales and Choices For You,
13 pay the same amounts for company assets, that the
14 Choices For You customers receive a notably lesser
15 amount of asset flexibility and allocation than the
16 sales customers.

17 **Q.** And how does RGS Cross Exhibit Dobson 15
18 specifically relate to the calculations in RGS
19 Exhibits 2.1 and 2.2?

20 **A.** RGS -- or excuse me. Exhibit Dobson 15
21 takes my Exhibit 2.1 and splits the Manlove storage
22 into two types of storage, traditional underground

1 storage and what Mr. Dobson referred to as needle
2 peaking facilities, which I believe is LNG for
3 Peoples Gas. So he divides up the Manlove into two
4 components.

5 Q. And what impact does dividing the Manlove
6 storage asset into two components have on your
7 analysis?

8 A. It has no impact on my analysis.

9 I had initially identified Manlove as
10 roughly 53 percent of the assets available and
11 simply by dividing it into two doesn't change that
12 total amount.

13 Q. So does that change at all the left-hand
14 bar of the chart in RGS Exhibit 2.2?

15 A. It doesn't change the left-hand bar at all.
16 I could have made that red block, divided it into
17 two and put two different colors in, one color for
18 the underground storage and one color for the LNG
19 facilities, but those two colors would have totaled
20 that red block that you see on the left-hand bar.

21 Q. Aside from the comments with regards to the
22 LNG and Manlove, are there any other changes that

1 are reflected in RGS Cross Exhibit Dobson 15?

2 **A.** Yes. Mr. Dobson in the lower right-hand
3 corner of his exhibit added some wording and I'll
4 read that. It says, Total without customer and
5 without LNG and City Gate, 77 percent.

6 **Q.** Do you agree with that notation?

7 **A.** No, I do not.

8 **Q.** Why not?

9 **A.** Well, let me go through it kind of a
10 component at a time.

11 The total without customer is very
12 consistent with how I've done my analysis. I did
13 my analysis not considering customer-owned gas
14 coming into the system on peak days. So that's
15 correct. That's fine.

16 The -- it goes on then to say that
17 without LNG and City Gate. Now, let me address
18 City Gate first.

19 Mr. Dobson yesterday explained -- and I
20 have no reason to disagree -- that the City Gate
21 gas which I've illustrated on my chart on that
22 third entry, City Gate delivery, about 10 percent

1 or so, is gas that comes in for the system supply
2 customers paid for exclusively by the system supply
3 customers and I agree with that.

4 The LNG, on the other hand -- LNG is a
5 peaking asset which serves both Choices For You and
6 system supply customers. It's paid for by both of
7 those customer groups. That's what Mr. Dobson
8 explained yesterday and I agree with that.

9 However, it's inappropriate to include
10 it here in his notation. I would remove LNG, and
11 the only adjustment then that I would make would be
12 to reduce the 103 percent by the amount of
13 City Gate gas, which is 10 percent. So this number
14 shouldn't be 77. It should be 93 percent.

15 **Q.** I'm sorry. You said 77. You mean 103
16 should be --

17 **A.** The 103, which is the total asset, should
18 be reduced by the City Gate gas percentage of 10
19 percent, bringing that total without customer and
20 without L- -- without City Gate should be 93
21 percent.

22 **Q.** So the result of removing the City Gate

1 assets would be that the left side of the chart
2 would be what number?

3 **A.** The left side of the chart without the
4 City Gate assets will be roughly 93, 92 percent. I
5 can't -- I'll give you an exact number as soon as I
6 can read it.

7 JUDGE MORAN: So you're subtracting that City
8 Gate delivery of 10.29.

9 THE WITNESS: Yes, ma'am. I am.

10 JUDGE MORAN: From that 103.

11 THE WITNESS: Absolutely. You got it.

12 And that results in 92.71 percent.

13 BY MR. TOWNSEND:

14 **Q.** What effect, if any, does Mr. Dobson's
15 analysis have on the orange column on the right
16 side of RGS Exhibit 2.2?

17 **A.** It has no effect on the orange column.

18 **Q.** Why is that?

19 **A.** Well, Mr. Dobson's analysis, while it
20 pointed out that part of the Manlove facilities
21 were needle peaking LNG to serve peak usage, those
22 facilities serve both Choices For You and serve

1 sales customers. And they're paid for by both
2 customers groups, so they are included as part of
3 the facilities that meet the needs of the Choices
4 For You customers, which is the right-hand side of
5 the column. So that column still stays at 71
6 percent.

7 Q. And is the calculation of the 71 percent
8 reflected on any of the work papers that you
9 produced?

10 A. Yes, it is. I filed a very detailed work
11 paper which was labeled yesterday RGS Cross Exhibit
12 Dobson 14. I filed that also. I brought an
13 electronic version because there's lot of formulas
14 on this work paper, but that's my work paper that I
15 used to do my calculations and construct the
16 analysis that produces the bar on the right-hand
17 side of the chart that says 71 percent.

18 Q. And where on that work paper does it
19 reflect the conclusion that it's 71 percent?

20 A. That's on my work paper, my analysis.

21 If you look at the low right-hand
22 corner -- or excuse me, lower left-hand corner,

1 you'll see right at the bottom, it says, 71 percent
2 of peak day consumption available from storage, and
3 so that's -- ties exactly to that 71 percent on the
4 bar chart.

5 Q. So what is your current recommendation
6 regarding allowing Choices For You customers to use
7 company-owned assets?

8 A. My current recommendation is that Choices
9 For You customers pay for company-owned assets and
10 they should be allowed to use company-owned assets
11 in a manner similar to the sales customers.

12 Q. And based upon the additional information,
13 what does it appear that the sales customers have
14 access to on a projected peak day?

15 A. It appears, if we do that one adjustment
16 taking out City Gate gas, that sales customers have
17 access to approximately 93 percent on a peak day
18 and CFY customers have only 71 percent.

19 So CFY customers need to get a greater
20 allocation and use of those company-owned assets.

21 MR. TOWNSEND: We have no further cross -- no
22 further examination --

1 JUDGE MORAN: Right.

2 MR. TOWNSEND: -- direct examination --

3 JUDGE MORAN: Thank you.

4 MR. TOWNSEND: -- of Mr. Crist, and we tender

5 the witness for cross-examination; make him

6 available for your Honors, if you'd like additional

7 questions about this additional testimony as well.

8 JUDGE MORAN: Thank you.

9 Miss Klyasheff, are you going to be

10 doing the cross?

11 MS. KLYASHEFF: Yes. Thank you, your Honors. I

12 have a few questions.

13 CROSS-EXAMINATION

14 BY

15 MS. KLYASHEFF:

16 Q. Mr. Crist, good morning. I'm Mary

17 Klyasheff and I represent the companies.

18 A. Good morning, Miss Klyasheff.

19 Q. First, I'd like to ask you a few questions

20 about the additional direct that you just gave. I

21 want to make sure I understood your description of

22 the revisions you're suggesting to the bar on the

1 chart.

2 Did I understand you correctly that the
3 left bar represents assets of available to sales
4 and Choices For You customers?

5 A. No, the left-hand bar represents
6 company-owned assets that are used to satisfy the
7 needs of sales customers. Those are customers
8 taking PGA services the Company.

9 Q. And you would revise the left bar to
10 subtract out the City Gate gas number. Did I
11 understand that correctly?

12 A. Yes, the City Gate gas number is -- are
13 assets paid for just by the sales customers, not by
14 the Choices For You customers.

15 So to do a comparison, I would remove
16 that 10 percent of City Gate gas so that the
17 appropriate difference to compare is now 93 percent
18 versus 71 percent.

19 Q. I thought I understood you to say that the
20 left bar are assets available to serve sales
21 customers?

22 A. Yes.

1 **Q.** And the City Gate gas is available to serve
2 sales customers; is that correct?

3 **A.** Correct.

4 **Q.** Yet, you're subtracting it from that bar?

5 **A.** What I'm illustrating is those are the
6 total assets that meet the sales customers' needs
7 on a peak day, but I'm illustrating by this chart
8 comparison how the Choices For You customers should
9 be entitled to more than the 71 percent because
10 they pay for those company-owned assets. The
11 company-owned asset on the left-hand bar that they
12 don't pay for is that City Gate gas, that 10
13 percent.

14 So to be clear, I'm not saying that
15 sales customers should go from 71 percent up to 103
16 percent. I'm saying that sales customers -- excuse
17 me. That choice -- Choices For You customers
18 should go from 71 percent up to 103 percent. I'm
19 saying Choices For You customers should go from 71
20 percent up to 93 percent, which is the 103 less the
21 City Gate gas that goes to the sales customers.

22 **Q.** Does any of your testimony pertain to

1 assets the Company's used to serve other
2 transportation customers?

3 **A.** No, my testimony focuses on the assets used
4 to serve system sales customers and Choices For You
5 transportation customers.

6 **Q.** Do you know if the Company's offered
7 transportation services other than the Choices For
8 You program?

9 **A.** I believe the Company offers transportation
10 services to large-volume customers, but I've not
11 reviewed those offerings.

12 **Q.** And your testimony in this exhibit is
13 pertinent only to sales customers and Choices For
14 You customers; is that your intention?

15 **A.** Yes, my focus is on those small commercial
16 and residential customers in Rate 1 and Rate 2 that
17 are eligible for the Choices For You programs.

18 **Q.** If we could turn to a different topic now,
19 the noncommodity gas charge and the aggregation
20 balancing gas charge. And, in particular, if I
21 could reference your direct testimony on Page 10,
22 Lines 212 to 216.

1 **A.** Okay. I'm at line -- did you say 212?

2 **Q.** Yes.

3 **A.** I'm there. Let me take a minute to read

4 it, please. Yes, I see that.

5 **Q.** Is it your opinion that the noncommodity

6 gas charge and the aggregation balancing gas charge

7 recover the same costs?

8 **A.** They don't recover exactly the same costs.

9 They do recover the costs of those upstream assets,

10 the off-system storage and the associated

11 transportation of that storage gas to the

12 City Gate.

13 **Q.** So do you agree those two charges do result

14 in identical charges?

15 **A.** That is correct.

16 **Q.** Assuming the aggregation balancing gas

17 charge remains in the tariff, is it your

18 recommendation that it recover a different group of

19 costs than it does currently?

20 **A.** Well, my overall recommendation was to

21 change the nature of the tariff to provide more

22 flexibility and asset allocation to Choices For You

1 customers so that it's similar to what's provided
2 to the system sales customers.

3 Doing that may involve reviewing the
4 aggregation balancing gas charge to look at other
5 costs that might be included or excluded.

6 **Q.** If your recommendation concerning access to
7 storage is not accepted, do you believe there are
8 costs that should be excluded from the aggregation
9 balancing gas charge?

10 **A.** Well, absolutely.

11 The illustration that I presented shows
12 that the Choices For You customers, even though
13 they're paying these charges both in the
14 aggregation balancing gas charge and in base rates,
15 don't receive the same level of services.
16 Therefore, we'd need to be reviewing a reduction in
17 those charges to CFY customers.

18 But I want to emphasize, it would be my
19 preference, for fair treatment of the CFY
20 customers, to receive greater allocation of those
21 company assets, the storage and the flexibility
22 associated with how they use that storage than

1 simply receive a cost reduction for those services
2 that they're not currently enjoying.

3 Q. Do you know if the aggregation balancing
4 gas charge excludes costs that do not support
5 balancing of the Choices For You customers?

6 A. I'm not certain of that.

7 Q. Do you know if the aggregation balancing
8 gas charge excludes costs that do not support
9 storage services to Choices For You customers?

10 A. I believe that charge includes costs that
11 support storage services for CFY customers. I'm
12 not sure what else it may exclude.

13 Q. In preparing your direct or rebuttal
14 testimony, did you read the description included in
15 the tariff of the noncommodity gas charge and the
16 aggregation balancing gas charge?

17 A. Yes, I did.

18 Q. And I think you agreed that they are not
19 identical charges?

20 A. Yes, I did.

21 Q. Referencing your rebuttal testimony on
22 Page 7, Lines 156 to 157.

1 **A.** Yes, I see that.

2 **Q.** You testify that the Company's control
3 delivery assets designed to provide 103 percent of
4 peak day and deliverability.

5 Please define "delivery assets" as you
6 use it in that statement?

7 **A.** As I use it in that statement, which is
8 also as I did my analysis in my exhibits and also
9 as I heard Mr. Dobson agree to yesterday, there are
10 a variety of company-owned assets that on a peak
11 day are used to ensure system deliverability, and
12 that would be this collection of assets that's in
13 the exhibit and illustrated on the chart.

14 And, in fact, they provide more than
15 peak day deliverability of a percent. There's an
16 extra three percent overage in the asset mix.

17 **Q.** Are you including within your definition of
18 delivery asset the commodity of natural gas?

19 **A.** I'm not including -- yeah, I'm including
20 storage and needle peaking assets and FT and
21 City Gate deliveries in that particular analysis,
22 yes.

1 So there is some commodity gas. For
2 example, City Gate deliveries are gas commodity.

3 **Q.** In your exhibit RGS 2.1, you show under the
4 heading Cost Recovery opposite the words City Gate
5 Gas, the letters NCGC/ABGC?

6 **A.** Yes.

7 **Q.** Is it your testimony that the City Gate gas
8 costs are recovered through the NCGC and ABGC?

9 **A.** The -- the City Gate gas costs are not
10 recovered through the ABGC. They may be recovered
11 through the NCGC. I'm not certain.

12 **Q.** But it's your testimony they are not
13 recovered through the ABGC?

14 **A.** City Gate gas costs are not recovered
15 through the ABGC.

16 **Q.** In the cost recovery column, there is six
17 lines where NCGC/ABGC appears, including City Gate
18 gas.

19 For each line where that appears, is it
20 your testimony that the cost associated with that
21 line are recovered through the NCGC or the ABGC?

22 **A.** In this exhibit, I issued this notation

1 NCGC or ABGC. Those are the -- the cost recovery
2 mechanisms for sales customers and for CFY
3 customers respectively.

4 So I've listed them in this cost
5 recovery mechanism to illustrate that that's how
6 each group would pay for a certain asset if,
7 indeed, they were paying for that asset.

8 **Q.** Are you stating that, in fact, they pay for
9 those assets through those charges today?

10 **A.** My data source on that was the Company
11 response to data request of IIEC and that should be
12 1.30. That was my basis of that.

13 I'm not certain what they do today, but
14 as of when they -- that data response was
15 submitted, that's what I used to construct the
16 information in this table.

17 **Q.** Turning to your direct testimony on
18 Page 16, Lines 347 to 348.

19 MR. TOWNSEND: I'm sorry. The line numbers
20 again?

21 MS. KLYASHEFF: 347 to 348.

22 MR. TOWNSEND: Of the direct testimony?

1 MS. KLYASHEFF: Yes.

2 THE WITNESS: Yes, I'm there and I've read that.

3 BY MS. KLYASHEFF:

4 Q. Your testimony includes the phrase, Within
5 the confines of the geological withdrawal
6 limitations of their storage assets.

7 A. Yes, I see that.

8 Q. Does "storage assets" in that phrase refer
9 to company-owned storage?

10 A. Well, IT refers to all storage assets.

11 Q. Hm-hmm.

12 A. That is -- which would include Manlove,
13 which is company-owned storage and a portion of
14 that Manlove facility is, indeed, underground
15 storage. That's subject to geological withdrawal
16 limitations.

17 Q. Are the other storage assets to which you
18 refer services purchased from third parties?

19 A. Yeah, there's upstream storage which is
20 available through the third-party pipeline
21 companies and those storage fields are also
22 traditional underground storage fields. So they

1 are subject to withdrawal limitations based on the
2 geography -- geology of their storage field.

3 Q. Do the Interstate pipelines have tariffs
4 that define the rights associated with their
5 storage services?

6 A. Yes, Interstate pipelines provide tariffs
7 to define those.

8 Q. Do those tariffs define the terms and
9 conditions under which the purchaser of the service
10 may inject gas into or withdraw gas from the
11 service?

12 A. Generally speaking, Interstate pipeline
13 tariffs on storage services would define injection
14 and withdrawal rates from storage.

15 Q. Is it those tariff restrictions that
16 determine how much gas, say, Peoples Gas can
17 withdraw in a given day?

18 A. A variety of factors would determine what
19 Peoples Gas can withdraw on any given day. There
20 would be tariff restrictions and then there would
21 be, in the case of storage fields that are
22 underground storage fields, geological

1 restrictions.

2 Q. So is your testimony that a pipeline could
3 impose restrictions above and beyond what's in its
4 tariff on a withdrawal restriction?

5 A. A pipeline would have tariff language that
6 has withdrawal rates under normal conditions and it
7 most likely would have a components of that tariff
8 language to affect some type of catastrophic event
9 or other -- other circumstances that might not be
10 considered normal. And those would change how you
11 can withdraw from storage.

12 Q. And is that what you consider a geological
13 limitation?

14 A. Well, I'm using that even in a broader
15 sense. I mean, there could be a variety of things
16 that happened to upstream pipelines.

17 Q. Referring to Page 20 of your testimony
18 where you discuss billing beginning on Line 446.

19 A. Yes, I see that and I've read that.

20 Q. The question refers to tasks the utilities
21 normally do for all customers. In the context of
22 this question and answer, to whom does "all

1 customers" refer?

2 **A.** Well, "all customers" refers to sales
3 customers and refers to CFY customers. You know,
4 keep in mind a sales customers could switch and
5 become a CFY customer or a Choices For You customer
6 has an option to switch back and become a sales
7 customer.

8 And all these are usual and customary
9 functions to manage billing and render bills to
10 customers.

11 **Q.** Does all customers also include the
12 large-volume transportation customers?

13 **A.** Generally speaking, these functions which I
14 listed in my testimony are used to render bills to
15 large-volume customers also.

16 **Q.** Is it your opinion that contract
17 administration, as you use those words on Line 448
18 to 449, is a function that utilities perform for
19 sales customers?

20 **A.** Utilities do provide contract
21 administration in the sense of -- and I heard
22 Mr. Dobson testify on this yesterday -- managing

1 contracts with upstream pipelines to procure
2 transportation and perhaps gas procurement. So
3 that would be contract administration that they
4 would do for sales customers.

5 Q. And that particular type of contract
6 administration pertains to the rendering of a
7 monthly bill to a sales customer?

8 A. There's a variety of costs, including
9 contract administration, that go into the charges,
10 the base rate charges that cover the cost of
11 rendering bills to customers, sales customers and
12 Choices For You customers.

13 Q. Is it your testimony that supplier support,
14 as you use those words on Line 449 to 450, is a
15 function the utilities perform for sales customers?

16 A. Yes. And the supplier support is to
17 support the suppliers of Choices For You programs,
18 the gas providers to the Choices For You programs
19 and those customers; alternative gas suppliers.

20 Q. Is that, likewise, true for the words
21 "supplier billing" as you use those words on
22 Line 450 to 441?

1 **A.** Yes, those -- those words refer to billing
2 interactions with the Choices For You alternate gas
3 suppliers.

4 **Q.** You reference Pegasus in your response on
5 Line 450. What is Pegasus?

6 **A.** Pegasus is the Company's system that tracks
7 dates for the Choices For You program and perhaps
8 for other transportation programs, but, clearly,
9 it's involved in the Choices For You program.

10 **Q.** In your opinion, would sales customers use
11 Pegasus?

12 **A.** Sales customers that are -- have not moved
13 to CFY or have not come back from CFY would not use
14 Pegasus on a particular given day.

15 But, again, customers can migrate from
16 one service to the other. And so these costs which
17 I've said in my testimony are appropriately borne
18 by all Rate 1 and Rate 2 customers that are
19 eligible for CFY programs.

20 **Q.** When a customer is purchasing its gas from
21 the utility as a sales customer, does that customer
22 use Pegasus?

1 **A.** On that particular day and time, perhaps
2 not.

3 **Q.** Turning to some questions about service
4 activation, your direct testimony on Page 28.

5 **A.** Any particular section of that?

6 **Q.** If you could look at Line 633, please.

7 **A.** Yes, I see that.

8 **Q.** In that answer, you're testifying about the
9 customer's right to rescind that's included in
10 Senate Bill 171.

11 And on that specific line, you refer to
12 a ten-day period. Is that a ten-calendar-day
13 period or a ten-business-day period?

14 **A.** That's a ten-business-day period.

15 **Q.** What event triggers the beginning of the
16 ten-business-day period?

17 **A.** I believe it's the customer applying for
18 service.

19 **Q.** Applying for service from whom?

20 **A.** Well, Senate Bill 171 deals with switching.
21 So this would be a customer's applying for service
22 with a CFY provider. In other words, they would be

1 switching from one type of service such as sales
2 service to a CFY provider.

3 Q. Does the utility send a notice to the
4 customer when that request occurs?

5 A. I want to make sure I understand.

6 You're saying when a customer requests
7 to switch from utility service to CFY service, does
8 the utility send a notice to the customer telling
9 them that they've requested a switch?

10 Q. When a customer requests of a CFY supplier
11 that he wishes to switch, does the utility confirm
12 that request with the customer, do you know?

13 A. I'm not aware of what the utility does with
14 the customer.

15 Q. Are you knowledgeable about whether Senate
16 Bill 171 addresses any notice of that sort?

17 A. I don't recall what SB 171 said about
18 notices that the utility would send to a customer.

19 Q. Referencing your Exhibit RGS 2.4.

20 A. Yes, I sign my Exhibit 2.4 and I've
21 reviewed it.

22 Q. Is this a complete copy of the data request

1 response?

2 **A.** Sitting here, I don't know.

3 I mean, I see what I submitted as a
4 response to the -- as I put in as an exhibit. I
5 believe it's the data request, but I'd have to --
6 could I review the data request?

7 It appears to be the data request
8 response.

9 **Q.** The request asked for samples of supplier
10 agreements. Did the response provide any samples
11 of agreements?

12 **A.** I didn't provide supplier agreement
13 samples. I provided the pertinent language that
14 the request was seeking.

15 **Q.** And you're referring to the sample language
16 that you quote in the response?

17 **A.** Correct. The language which clearly
18 authorizes the Company to transfer those credit
19 balances from the Company to a CFY supplier.

20 **Q.** And does that sample language come from a
21 specific supplier agreement?

22 **A.** Yes, it does. I reviewed and pulled that

1 language from a specific supplier agreement.

2 Q. Do you know if that supplier includes and

3 continues to include that language in all its

4 agreements that are in effect?

5 A. I believe that's their usual practice.

6 Q. And this example is the extent of your

7 response to this data request?

8 MR. TOWNSEND: I'm going to object to the

9 question. It's been asked and answered.

10 I would note for the record that there

11 was no follow-up by the Company to the data request

12 response. So the response -- you know, if the

13 Company was asking for --

14 JUDGE MORAN: Sustained already.

15 MR. TOWNSEND: -- they could have come back in

16 the --

17 JUDGE HAYNES: Sustained.

18 MR. TOWNSEND: -- in the course of discovery.

19 MS. KLYASHEFF: No further questions.

20 JUDGE MORAN: Thank you.

21 MR. TOWNSEND: If I can have just a moment to

22 confer with clients.

1 JUDGE MORAN: Sure. Sure.

2 (Pause.)

3 MR. TOWNSEND: I do have one line, your Honors.

4 JUDGE MORAN: Thank you.

5 MR. TOWNSEND: Mr. Crist --

6 JUDGE MORAN: Do you want to -- maybe before you

7 start redirect, I have another -- I have a question

8 on cross.

9 MR. TOWNSEND: Okay.

10 EXAMINATION

11 BY

12 JUDGE MORAN:

13 Q. Going back to that Exhibit 2.4, the data

14 request where you -- you were asked to provide

15 samples of supplier agreements.

16 Now, can you tell me where this supplier

17 agreement language came from?

18 A. You mean the specific company's contract?

19 Q. Yes, if you can.

20 MR. TOWNSEND: You know, I'd prefer -- you know,

21 I'd prefer not to be identifying specific contract

22 language from a specific company's contract, if we

1 can.

2 JUDGE MORAN: Okay. Then fine. Let me ask it a
3 different way.

4 BY JUDGE MORAN:

5 Q. Is it from a supplier in this jurisdiction,
6 in the Peoples Gas/North Shore --

7 A. Yes. In fact, it's from a -- one of the
8 larger suppliers servicing Choices For You
9 customers in the Peoples Gas service territory.

10 JUDGE MORAN: Okay.

11 Thank you.

12 REDIRECT EXAMINATION

13 BY

14 MR. TOWNSEND:

15 Q. Mr. Crist, do you recall Miss Klyasheff
16 asking you questions about your direct testimony at
17 Line 446, the area where you discussed billing for
18 all customers?

19 A. Yes, I recall that.

20 Q. Do you believe it was appropriate to refer
21 to the various types of billing systems used to
22 support alternative suppliers when you talk about

1 the billing systems for all customers?

2 **A.** Yes, absolutely. I've been clear about
3 that in my testimony, that these systems that exist
4 to support the Choices For You programs which are
5 programs that all Rate 1 and Rate 2, the small
6 commerce and residential customers, are eligible
7 for; that these systems and the costs associated
8 with them should be in base rates and borne by all
9 the customers eligible customers of the utility
10 similar to how it's done in Nicor, in the
11 Commission-approved and Staff-approved program
12 there and also similar to how Peoples does it in
13 their energy efficiency programs that are available
14 to all customers.

15 MR. TOWNSEND: Nothing further.

16 JUDGE MORAN: Okay. Any recross?

17 MS. KLYASHEFF: No.

18 JUDGE MORAN: With that, the witness is excused.

19 Thank you very much.

20 THE WITNESS: Thank you, your Honors.

21 MR. TOWNSEND: Thank you, your Honors.

22 THE WITNESS: We'll take our chart with us.

1 JUDGE MORAN: So I can finally see Mr. Reddick
2 and what he's doing.

3 MR. TOWNSEND: Conrad, you're going to have to
4 wake up.

5 (Discussion off the record.)

6 JUDGE MORAN: You know what, I'm wondering -- I
7 know that for poor Mr. Doerk is the next witness,
8 but I've got Mr. Dobson here.

9 MR. TOWNSEND: Yes. We actually had a
10 conversation with counsel yesterday for the
11 companies and indicated that we would not be
12 cross-examining him today.

13 If we had additional cross-examination,
14 we wanted to take additional time, perhaps issue
15 additional discovery and then call him back. So
16 they knew before today that that was our request.

17 JUDGE MORAN: Was that communicated, though, to
18 Mr. Dobson, who's here?

19 MR. TOWNSEND: Again, all I can do is
20 communicate to their counsel, your Honor.

21 JUDGE MORAN: I'm really sorry, Mr. Dobson.

22 MR. RICHARD DOBSON: As long as it's not next

1 Tuesday, your Honor, I'm happy.

2 JUDGE MORAN: Go back to work. I'll write you a
3 note. Then will --

4 MR. TOWNSEND: We'll continue to coordinate with
5 counsel.

6 JUDGE MORAN: -- you will inform us, please, if
7 you need Mr. Dobson and when -- and please be clear
8 on delivering that message to him also.

9 MR. TOWNSEND: And if you'd like to give me his
10 e-mail address so I --

11 JUDGE MORAN: I can't give it to you because I
12 don't have it.

13 MR. TOWNSEND: It's up to their -- again, I'm
14 limited.

15 JUDGE MORAN: I understand. I understand. We
16 just need a little better communication.

17 MS. KLYASHEFF: Your Honors, just to clarify, we
18 brought Mr. Dobson today because we understood it
19 was your request that he be here today.

20 JUDGE MORAN: Oh, and it was for a specific
21 purpose and that was -- and that was to respond to
22 any questions Mr. Townsend might have had.

1 MR. TOWNSEND: Thank you, your Honor.

2 MR. RICHARD DOBSON: Thank you, your Honors.

3 JUDGE MORAN: Thank you.

4 Okay. I believe we're prepared for the
5 next witness.

6 Counsel, you have Mr. Doerk?

7 MR. ZIBART: We do, your Honor. I don't believe
8 Mr. Doerk has been sworn.

9 (Witness sworn.)

10 JUDGE MORAN: Thank you.

11 EDWARD DOERK,
12 called as a witness herein, having been first duly
13 sworn, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY

16 MR. ZIBART:

17 Q. Would you state your name, sir.

18 A. Ed Doerk.

19 Q. And would you spell your last name?

20 A. D-o-e-r-k.

21 Q. And by whom are you employed?

22 A. Peoples Gas, Light and Coke Company.

1 **Q.** And what is your title there?

2 **A.** Vice president, gas operations.

3 **Q.** And, Mr. Doerk, has written direct

4 testimony been prepared by you or under your

5 direction and control for submission in Commission

6 docket 09-0166 and 09-0167?

7 **A.** Yes, it has.

8 **Q.** Do you have in front of you a document

9 that's been marked for identification North Shore

10 Exhibit ED 1.0?

11 **A.** Yes.

12 **Q.** And is that a true and correct copy of your

13 written direct testimony in the -- in the

14 North Shore docket?

15 **A.** Yes.

16 **Q.** And attached to it is an attachment labeled

17 NS Exhibit ED 1.1?

18 **A.** Yes.

19 **Q.** And do you also have in front of you a

20 document that's been marked for identification

21 Peoples Gas Exhibit ED 1.0?

22 **A.** Correct.

1 **Q.** Is that a true and correct copy of your
2 written direct testimony in the Peoples docket?

3 **A.** Yes, it is.

4 **Q.** And attached to that one is an attachment
5 labeled PGL Exhibit ED 1.1?

6 **A.** Yes.

7 **Q.** And both of these pieces of testimony were
8 part of the utility's initial filings on
9 February 25th, 2009?

10 **A.** Correct.

11 **Q.** And has written rebuttal testimony also
12 been prepared by you or under your direction and
13 control for submission in these dockets?

14 **A.** Yes, it has.

15 **Q.** Do you have in front of you a document
16 that's been marked for identification NS/PGL
17 Exhibit ED 2.0?

18 **A.** Yes.

19 **Q.** And is that a true and correct copy of your
20 written rebuttal testimony in the consolidated
21 dockets?

22 **A.** Yes.

1 **Q.** And that was filed on July 8th, 2009?

2 **A.** Correct.

3 **Q.** And has written surrebuttal testimony also

4 been prepared by you or under your direction and

5 control for submission in these dockets?

6 **A.** Yes, it has.

7 **Q.** And do you have in front of you a document

8 that's been marked for identification NS/PGL

9 Exhibit ED 3.0?

10 **A.** Yes.

11 **Q.** And is that a true and correct copy of your

12 written surrebuttal testimony in the consolidated

13 dockets?

14 **A.** Yes, it is.

15 **Q.** And that was filed on August 17th, 2009?

16 **A.** Correct.

17 **Q.** Mr. Doerk, if I were to ask you the

18 questions set forth in these documents, would you

19 give the answers set forth in those documents

20 subject to the revisions made in your subsequently

21 filed rebuttal and surrebuttal testimonies?

22 **A.** Yes, I would.

1 Q. And do you intend that these documents will
2 comprise your sworn testimony in this docket?

3 A. Yes.

4 MR. ZIBART: Your Honor, at this time, we move
5 into evidence NS Exhibit ED 1.0 and 1.1, PGL
6 Exhibit Ed 1.0 and 1.1, NS/PGL Exhibit ED 2.0 and
7 NS/PGL ED Exhibit 3.0.

8 JUDGE MORAN: Are there any objections to the
9 admission of this evidence?

10 MS. LUSSON: (Shaking head.)

11 JUDGE MORAN: Hearing none, each of those
12 exhibits are admitted.

13 (Whereupon, NS Exhibit ED 1.0,
14 1.1; PGL Exhibit Ed 1.0, 1.1;
15 NS/PGL Exhibit ED 2.0, NS/PGL ED
16 Exhibit 3.0 were admitted into
17 evidence as of this date.)

18 MR. ZIBART: Those are all the questions I have
19 for Mr. Doerk and he's available for
20 cross-examination.

21 JUDGE MORAN: Thank you.

22 And who wishes to start?

1 Miss Lusson --

2 MS. LUSSON: Thank you, your Honor.

3 JUDGE MORAN: On behalf of the Attorney General.

4 Thank you.

5 CROSS-EXAMINATION

6 BY

7 MS. LUSSON:

8 Q. Good morning, Mr. Doerk.

9 A. Good morning.

10 Q. If I could turn to Page 3 of your direct
11 testimony.

12 Now, you indicate that you're
13 responsible for all gas distribution and utility
14 field operations, including customer service,
15 distribution, system maintenance and construction;
16 is that correct?

17 A. That's correct.

18 Q. And within those job responsibilities, do
19 you oversee the main replacement process that is
20 currently underway at Peoples Gas?

21 A. Yes.

22 Q. Now, turning to Page 11 of your direct

1 testimony, the top of the page there. You talk
2 about the assumptions that were used to forecast
3 the years of capital spending on the cast iron main
4 replacement program in 2008, 2009 and 2010. Do you
5 see that?

6 **A.** Yes.

7 **Q.** And then in your rebuttal testimony, you
8 indicate the changes in the forecast for capital
9 spending on the cast iron main replacement program
10 for 2009 and 2010; is that correct?

11 **A.** Yes.

12 **MR. ZIBART:** Just for clarification of the
13 record, Miss Lusson was referring to Mr. Doerk's
14 direct testimony in the Peoples docket, the
15 Peoples Gas docket; not the North Shore docket.

16 **MS. LUSSON:** That's correct.

17 Thank you, Counsel.

18 **JUDGE MORAN:** We're following you.

19 **BY MS. LUSSON:**

20 **Q.** Now, going back to your direct testimony,
21 it's correct then that the original projections at
22 the time this case was filed, assumed that in 2009,

1 there would be a 4- -- the 2009 number for cast
2 iron main replacement reflect -- reflected a 14.8
3 percent annual increase from the 2008 levels; is
4 that right?

5 **A.** That's correct.

6 **Q.** And then the 2010 original forecast assumed
7 a 109.9 percent increase in cast iron main
8 replacement over 2009 levels or 2008 levels?

9 **A.** I believe that would be over the 2009
10 levels.

11 **Q.** Okay. Now, turning to your rebuttal
12 testimony. First, let me ask, in 2008, the Company
13 replaced about 45 miles of cast iron main; is that
14 correct?

15 **A.** That's correct.

16 **Q.** And was that a typical amount of cast iron
17 main replacement under the current cast iron main
18 replacement program?

19 **A.** Yes, it is.

20 **Q.** And that -- just to clarify, that current
21 cast iron main replacement program anticipates a
22 completion date of 2050?

1 **A.** That's correct.

2 **Q.** Now, the Kiefner (phonetic) study that you
3 referenced in your surrebuttal testimony in
4 response to -- I believe it was Mr. Stoller's
5 testimony, called for an annual replacement of
6 about 57 miles a year to achieve the existing 2050
7 full retirement date; is that right?

8 **A.** That was -- that's not quite accurate.

9 The Kiefner study actually accelerated
10 small diameter replacement and actually extended
11 the life of large diameter replacement.

12 **Q.** Okay.

13 **A.** So...

14 **Q.** So the latest Kiefner study then still
15 assumed, on average, a 45-year replacement rate for
16 cast iron main?

17 **A.** The Kiefner study, I believe, targeted
18 small diameter main replacement by the year 2037.

19 **Q.** And was that 45 mile annual rate that was
20 achieved in 2008 and, as I understand, had been
21 consistently achieved made at -- in response to
22 that Kiefner study?

1 **A.** With the Kiefner study, the main
2 acceleration would have had to increase slightly
3 above the 45 mile rate.

4 **Q.** Okay. Do you know how much above? 47? 50
5 or --

6 **A.** I believe that -- I think I put a table
7 together. That would have been 57 miles to get
8 small diameter completed by the year 2037.

9 **Q.** And was there a pipe width that was going
10 to maintain the 2050 completion rate?

11 **A.** The Kiefner study superseded the ZEI study
12 which targeted originally a 2050 completion date.

13 **Q.** So was the Company on track then, just so
14 I'm clear, at 45 miles annually replaced to
15 coincide with the original ZEI study or the Kiefner
16 study?

17 **A.** That was for the original ZEI study. There
18 would have been a slight acceleration in order to
19 adjust to the latest Kiefner study.

20 **Q.** Okay. Okay. Turning to your rebuttal
21 testimony where you update the original forecast.
22 I think it's page -- Pages 4 and 5.

1 Now, you state that the original
2 forecast of 46 miles of C- -- cast iron main
3 replacement for 2009 has been reduced to about 20
4 miles in 2009; is that right?

5 **A.** That's correct.

6 **Q.** And the cost numbers associated with that
7 are as follows:

8 The original forecasts, of which the
9 direct testimony is based, was that the original
10 forecast of 46 miles of main replacement which
11 would have cost 50.5 million is now 20 miles at a
12 cost of 22 million?

13 **A.** Correct.

14 **Q.** And given that this is late August of 2009,
15 is that forecast of replacing -- of replacing about
16 20 miles at a cost of \$22 million still on target
17 for the 2009 year?

18 **A.** Yes, it is.

19 **Q.** And turning to 2010, you indicated at Lines
20 101 through 103 of your rebuttal testimony that
21 Peoples currently forecast about replacing about
22 ten miles of cast iron main in 2010 in contrast

1 with the original forecast of 92 miles of replaced
2 main in 2009 -- 10; is that correct?

3 A. Yes.

4 Q. And the updated forecast of main
5 replacement would cost 11 and a half million as
6 compared to the cost forecast in your direct
7 testimony of 106 million; is that right?

8 A. Correct.

9 Q. And like the 2009 number, has that number
10 slipped or changed at all since you filed your
11 rebuttal testimony?

12 A. No, it has not.

13 Q. Now, as I understand the testimony of
14 Mr. Marano, he anticipates that if the Commission
15 adopts an accelerated infrastructure replacement
16 program, that there would be a five-year ramp-up to
17 achieving the annual level of expenditures that
18 would complete the job by 2030.

19 Is that your understanding?

20 A. Yes.

21 Q. Now, Mr. Marano also assumes for purposes
22 of his proposal -- or of his proposed accelerated

1 replacement program that would end in 2030, that
2 114 miles of cast iron main would be replaced
3 annually; is that right?

4 **A.** I don't recall those numbers; but if that's
5 what he's testifying to, that seems accurate.

6 **Q.** Now, is it correct that the Company's
7 request for Rider ICR is tied to that 2030
8 completion date assumption?

9 **A.** Yes.

10 **Q.** Now, given the fact that the Company is now
11 forecasting 20 miles of main replacement in 2009,
12 which is, would you agree, significantly under the
13 current rate of main replacement of 45 miles
14 annually?

15 **A.** 20 miles is a little less than half the 45.

16

17

18 (Change of reporters.)

19

20

21

22

1 **Q.** And given the fact that the Company
2 forecasts 10 miles of main replacement in 2010,
3 when -- do you know or can you state today when the
4 Company plans to ramp up to that 114-mile annual
5 replacement rate that's assumed in Mr. Marano's
6 testimony?

7 **A.** Yeah, I cannot say. I thought it was laid
8 out in his plan to be a path accelerated to the
9 rate to get completed by the year 2030.

10 **Q.** So if the original projection called for --
11 2009 and 2010 called for the replacement of
12 138 miles of main and now you're only planning to
13 replace only 30 miles during those 2 years, do you
14 anticipate making up the 108 miles of main that you
15 originally had planned to replace during those
16 2 years?

17 **A.** Yes.

18 **Q.** And do you know how that would be spread
19 apart, would that be within that 5-year ramp up or
20 do you know?

21 **A.** I don't know, other than it would be
22 included as part of the ramp up and, again, to be

1 completed by the year 2030. It would be included
2 in those miles.

3 Q. Given the significant difference between
4 what was originally forecast in the original filing
5 and what has been in the adjusted main replacement
6 forecast in your rebuttal testimony, is it possible
7 that the makeup of that 108-mile difference in
8 assumptions could go beyond those -- that 5-year
9 ramp up?

10 A. I mean, it would get covered, those miles
11 would get included in however you ramp up, all the
12 way out to 2030. Those miles would get
13 incorporated into that plan, that 20-year plan.

14 Q. So you don't know if it's within 5 years or
15 it could be 10 or 12?

16 A. No, only that it would be included in that
17 amount.

18 Q. Now, in your opinion, is Peoples
19 jeopardizing public health and safety by leaving
20 that 108 miles of cast iron main in the ground for
21 another few years or more?

22 A. No, I do not believe we are jeopardizing

1 anyone's safety.

2 Q. Now, I just want to clarify the numbers of
3 main that are remaining in the Peoples distribution
4 network. The number of cast iron miles, that is.
5 At Page 10 of your direct testimony, Line 197?

6 JUDGE MORAN: We're back on the direct?

7 MS. LUSSON: Yes.

8 THE WITNESS: I'm sorry, what line?

9 BY MS. LUSSON:

10 Q. 197. You state at the end of 2008 there
11 were about 1,882 miles of cast iron main out of a
12 total of 4,025 miles of main; is that right?

13 A. Yes.

14 Q. And given your updated forecast for cast
15 iron main replacement in 2009 and 2010, is it
16 correct, then, doing the math, that at the end of
17 2009 there would be about 1,862 miles of cast iron
18 main remaining?

19 A. Yes.

20 Q. And then given your updated forecast for
21 2010, is it correct that at the end of that year
22 there would be about 1,852 miles of cast iron main

1 remaining?

2 **A.** Yes.

3 **Q.** Now, as the person that oversees the cast
4 iron main replacement program, do you also, in your
5 day-to-day job, monitor the costs associated with
6 replacing main, to a certain extent?

7 **A.** Yes.

8 **Q.** During 2009, have you observed any increase
9 in the cost of materials, plastic and steel pipe,
10 used for main replacement?

11 **A.** I don't know.

12 **Q.** Have you observed any declines in the cost?

13 **A.** In the price of that material, I don't
14 know.

15 **Q.** And have you observed any increase in the
16 cost of wages for the contract workers -- for the
17 contract workers doing the main replacement work?

18 **A.** Our field employees got their union
19 increase at the beginning of May.

20 **Q.** And what was that increase, do you know?

21 **A.** I believe it was 3 percent, 3 and a half
22 percent, I can't remember exactly, but it was in

1 that range.

2 **Q.** And typically do the union workers get
3 wages -- wage increases annually?

4 **A.** According to contract, yes.

5 **Q.** And have those percentage increases in
6 wages varied over the years?

7 **A.** I mean, it was whatever was negotiated.

8 **Q.** And you indicate it was 3 and a half
9 percent effective this past May?

10 **A.** Correct.

11 **Q.** Do you know what it was the year prior?

12 **A.** You know, they were right around the
13 3 percent range, I just don't remember exactly what
14 it is.

15 **Q.** Do you know, is 3 percent typical for a
16 wage increase rate, if you know?

17 **A.** It depends on when you are negotiating the
18 contract and what's going on with the economy.
19 It's part of a contract negotiation that
20 establishes that rate.

21 **Q.** And the time that you've been employed at
22 Peoples, is 3 percent typical, would you say, if

1 you know?

2 **A.** I mean, you know, I can't recall over all
3 the past years. It's been higher than 3 percent
4 some years and I know it's been lower than
5 3 percent some years.

6 **Q.** Now, as I understand your rebuttal
7 testimony, where you discussed the work slow down,
8 you indicate that, for example, at Line 72, that
9 recent fragile credit markets have forced many
10 corporations to reassess and reevaluate capital
11 spending programs. Do you see that testimony?

12 **A.** Yes.

13 **Q.** So I take it, then, that the cost of
14 materials, wages, are not the only factors
15 effecting Peoples construction expenditures budget
16 and the main replacement process; is that true?

17 **A.** Yes.

18 **Q.** In terms of those factors, in addition to
19 wages, materials, credit markets, any other factors
20 that you can think of that affect the rate at which
21 Peoples replaces main?

22 **A.** Labor and materials are -- labor is the

1 biggest driver. I can't think of anything else.

2 Q. Now, given the significant draw down in the
3 main replacement process that has occurred in 2009
4 and is expected to occur in 2010, sitting here
5 today, can you indicate whether in 2011 that will
6 significantly increase?

7 A. Sitting here right now I don't know what
8 that number will be in 2011. There will be an
9 increase in 2011, I just don't know how much that
10 would be.

11 Q. And, again, in 2011, you stated that you
12 anticipate some kind of increase in main
13 replacement. Could the level of that increase be
14 affected by the same kinds of things that you cite
15 in your rebuttal testimony that have impacted main
16 replacement now?

17 A. It could.

18 Q. So, unless, for example, you had a crystal
19 ball about what is going to happen with the
20 economy, it's difficult to say, at this point, if
21 Peoples can, in fact, ramp up to that 114-mile
22 annual replacement rate, isn't it?

1 **A.** The crystal ball for 2011 is hard. I mean,
2 there is a plan in place or that's projected that
3 would replace all of our main by 2030. There might
4 be some years that might be a little lighter, but
5 to get to that point there would be an
6 acceleration. I just don't know what those miles
7 would be in 2011.

8 **Q.** And so given the slow down in 2009 and
9 2010, is the Company still sure that it would
10 complete the main replacement program by 2030?

11 **A.** It would be possible to complete by 2030,
12 yes.

13 **Q.** And that's assuming what?

14 **A.** I mean, that's our plan, we'll get it done
15 by 2030.

16 **Q.** Well, let me ask you this, if the economy
17 doesn't improve, because apparently the economy has
18 had a great impact on the rate of replacement in
19 2009 and what is forecasted for 2010, if the
20 economy doesn't improve and Integrys, the parent
21 company, has determined that in a harsh economic
22 climate it must preserve the required flexibility

1 to respond to changing business conditions, is it
2 possible that in 2011 a significant ramp up might
3 not occur?

4 A. I couldn't say that, no.

5 Q. When you say I couldn't say that, are you
6 saying you don't know or you're sure that the ramp
7 up is going to occur?

8 A. There will be a ramp up, because it will be
9 necessary in order to complete by the year 2030.

10 Q. But the level of ramp up, you're not sure?

11 A. I don't know what that exact number would
12 be in 2011, no.

13 Q. When Mr. Schott was testifying the other
14 day, he indicated that there are a number of -- I
15 asked him, let me read you the question and his
16 answer now. The question read, now, under the
17 Company's proposal, even if the Commission approves
18 Rider ICR, the Company wouldn't necessarily commit
19 to accelerating infrastructure, would it?

20 And Mr. Schott stated, there is a number
21 of factors that would affect whether or not the
22 Company accelerates a program. Approval of Rider

1 ICR is one of them. And then the question read,
2 but approval of the rider, in and of itself, would
3 not necessarily dictate the pace or, in fact,
4 whether or not the acceleration would occur; is
5 that correct? And Mr. Schott stated, that's
6 correct.

7 Is it your testimony that regardless of
8 economic factors, regardless of the change in
9 forecast for 2009 and 2010, that the Company will,
10 if it gets Rider ICR, will complete the main
11 replacement program by 2030?

12 **A.** Can you state that again? If the Company
13 gets the ICR will we complete the main replacement
14 by 2030, is that the question?

15 **Q.** Yes. Or might economic factors affect that
16 completion date? Because, again, based on what
17 Mr. Schott said, approval of the rider, in and of
18 itself, would not necessarily dictate the pace or,
19 in fact, whether or not the acceleration would, in
20 fact, occur. And he said, yes, that's correct.

21 **MR. ZIEBART:** I'll object to the form of the
22 question. I'm not sure at this point the witness

1 has one specific question that he can answer.

2 BY MS. LUSSON:

3 Q. Well, I think I'll go back to the question,
4 which I think was pending before I cited the
5 transcript. And that is, is it the Company's
6 position that if it gets Rider ICR, are you
7 committing to complete the construction project
8 absolutely by 2030?

9 A. If the company got Rider ICR, would we
10 complete the acceleration by the year 2030?

11 Q. Yes.

12 A. Yes.

13 Q. Well, I guess I'm confused, then, because
14 Mr. Schott indicated that approval of the rider, in
15 and of itself, would not necessarily dictate the
16 pace or in fact whether the acceleration would
17 occur. So are you disagreeing with Mr. Schott?

18 A. No, I'm not disagreeing with Mr. Schott.

19 Q. And do you want to revise your answer? Do
20 you believe it's consistent with what Mr. Schott
21 has stated in terms of absolutely committing to
22 complete the project by 2030, if you got Rider ICR?

1 **A.** I'll go along with Mr. Schott's answer.

2 **Q.** So given your understanding of what
3 Mr. Schott testified to, is it correct that sitting
4 here today, you can't guarantee that if the Company
5 gets Rider ICR, that you will complete the
6 accelerated plan by 2030?

7 **A.** Based on what Mr. Schott said, yes, that
8 would be true.

9 **Q.** Finally, Mr. Doerk, at Page 15 of your
10 direct testimony you state that segments of cast
11 iron main that have accumulated an MRI rating
12 greater than --

13 JUDGE MORAN: And Ms. Lusson, what testimony and
14 what page? And maybe can we start with that first
15 so you can give me time to find it.

16 MS. LUSSON: Sure. Direct testimony, Page 15,
17 Line 265.

18 JUDGE MORAN: And I would suggest that for all
19 cross examination, if you are going to refer to a
20 piece of testimony, please give that first before
21 you ask any question.

22

1 BY MS. LUSSON:

2 Q. Oh, the main -- MRI stands for main ranking
3 index; is that correct?

4 A. That is correct.

5 Q. And as I understand your testimony, that
6 mains with a rating of greater than 6.0 are placed
7 on a schedule to be retired; is that correct?

8 A. That is correct.

9 Q. And as I understand it, the main ranking
10 index, the mains with a ranking of 6.0 are the ones
11 that are considered to be, either due to age or
12 condition, most vulnerable to leaks; is that
13 correct?

14 A. That would be correct.

15 Q. Do you know approximately what percentage
16 of Peoples remaining cast iron mains have a ranking
17 of 6.0, generally?

18 A. A very, very small percentage. I don't
19 know the number off the top of my head, but it's a
20 very small percentage.

21 Q. Would it be less than 10, if you know?

22 A. Less than 10 percent?

1 **Q.** Yes.

2 **A.** Off the top of my head, I think it's less
3 than 1 mile.

4 MS. LUSSON: Thank you Mr. Doerk, no further
5 questions.

6 JUDGE MORAN: Thank you, Ms. Lusson. And Staff.

7 CROSS EXAMINATION

8 BY

9 MR. FOSCO:

10 **Q.** Good morning, Mr. Doerk, my name is Carmen
11 Fosco, and I'm one of the attorneys representing
12 Staff.

13 As a vice president of gas operations,
14 you testified you're responsible for all gas
15 distribution, utility field operations, including
16 customer service, distribution system maintenance
17 and construction, correct?

18 **A.** That's correct.

19 **Q.** Could you explain the customer service part
20 of your duties?

21 **A.** It would be customer calling in for a turn
22 on, someone that's off and wants their gas turned

1 back on, that would be most of our customer service
2 requests.

3 Q. So it's only for operations and maintenance
4 and not the call center?

5 A. No, I have no responsibility for call
6 center.

7 Q. Can you give us a brief description of what
8 you would do on a day-to-day basis with respect to
9 construction?

10 A. Construction work would consist of
11 replacing cast iron main with steel or plastic or
12 adding new services.

13 Q. And are you involved in the detailed field
14 work or do people just tend to generally report to
15 you about construction progress and issues?

16 A. Right, I would not be involved in the
17 detail of the construction work.

18 Q. How about for maintenance and operations,
19 would it be the same people would report to you on
20 a general basis, but you wouldn't be involved in
21 the detailed day-to-day maintenance and operation
22 activities?

1 **A.** That would be correct.

2 **Q.** If you could refer to Page 5 of your
3 Peoples direct testimony. And just let me know
4 when you're there.

5 **A.** I'm there.

6 **Q.** You indicate that the test year
7 distribution plant is 2.1 billion. Do you see
8 that?

9 **A.** Yes, I do.

10 **Q.** Is that a net number or is that gross, if
11 you know?

12 **A.** I believe it's a gross number.

13 **Q.** And then -- so if we were to turn to Page 9
14 of your direct testimony where you talk about the
15 net plant at year end, December 31, 2007, those two
16 numbers would not be comparable?

17 **A.** I believe this is part of Schedule B, which
18 is in John Hengtgen's, but .2 percent would be --
19 net plant, it must be net plant because I see here
20 now I'm taking it and multiplying it by the 2007
21 number.

22 **Q.** Right. But on Page 9 you are referring to

1 the 2007 balance and at the earlier point in your
2 testimony you were referring to the test year which
3 is 2010, correct?

4 A. Yes, that's correct.

5 Q. So, and I guess what I was trying to get at
6 was whether we could determine the growth in that
7 plant by comparing those two numbers. But if I
8 understand your testimony now, those are different
9 numbers, one is a gross number and one is the net?

10 A. You know, I'm not quite sure.

11 Q. Have you determined what the impact would
12 be on net distribution plant if Rider ICR is
13 approved and the Company -- strike that.

14 Have you determined what the impact on
15 net plant would be if the Company completed its
16 cast iron replacement program by 2030?

17 A. No, I haven't.

18 Q. Do you have an idea of the order of
19 magnitude? Do you know if it would --

20 A. I really don't.

21 Q. On Page 3 of your North Shore Direct
22 Testimony and Page 4 of your Peoples Gas Direct

1 Testimony, you describe the Peoples Gas system and
2 you describe the North Shore system as
3 predominantly a 45-pound system and the Peoples Gas
4 system as a predominantly a quarter or 25-pound
5 system?

6 A. That's correct.

7 Q. Does the 25-pound part refer to the medium
8 pressure distribution system?

9 A. For Peoples?

10 Q. For Peoples Gas.

11 A. Yes, it does.

12 Q. Why is Peoples Gas a 25-pound medium
13 pressure system and North Shore a 45? Could you
14 briefly explain that?

15 A. Peoples' medium pressure system is limited
16 to 25 pounds because there is cast iron in our
17 medium pressure system and you cannot operate cast
18 iron over 25 pounds.

19 Q. So that would change, as there is a
20 replacement, that would change?

21 A. I'm not quite sure.

22 Q. I'm trying to determine the amount of cast

1 iron. And can we agree that when I refer to cast
2 iron, I mean both cast iron and ductile?

3 A. Yes.

4 Q. I find two different numbers, I believe, in
5 your testimony regarding the amount of cast iron
6 that existed in 1981. One number appears at Page 9
7 and 11 of your direct testimony, for Peoples, you
8 indicate the amount as 3,450 miles?

9 JUDGE MORAN: Page 9, what line?

10 MS. LUSSON: 192.

11 BY MR. FOSCO:

12 Q. And then if you refer to your surrebuttal
13 testimony at Page 4, you indicate that the mileage
14 for cast iron main is 3,523?

15 JUDGE MORAN: And again what line?

16 JUDGE HAYNES: 75.

17 THE WITNESS: Yes.

18 BY MR. FOSCO:

19 Q. Is one of those numbers wrong?

20 A. Obviously.

21 Q. And do you know which one?

22 A. I don't. I believe the 3523 number might

1 be coming right from the Zinder report. I really
2 don't know which is the 3450, 3523, they are within
3 70 miles. I'm not quite sure which number is the
4 correct number.

5 JUDGE MORAN: Do you want to make a data request
6 and have the witness get that information?

7 MR. FOSCO: No, I have some documents --
8 actually, you know what, I would do an
9 on-the-record data request for the amount of cast
10 iron that existed at the end of 1981.

11 JUDGE MORAN: And that will be Staff Data Request
12 No. 1, on the record.

13 MR. FOSCO: Your Honors, may I approach?

14 JUDGE MORAN: Sure.

15 MR. FOSCO: What exhibit number are we on?

16 JUDGE HAYNES: 19.

17 (Whereupon, ICC Staff Cross
18 Exhibit No. 19 was
19 marked for identification
20 as of this date.)

21 MR. FOSCO: Your Honor, I've tendered to the
22 witness what has been previously marked as ICC

1 Cross exhibit Doerk No. 19.

2 BY MR. FOSCO:

3 Q. Mr. Doerk, are you familiar with this?

4 A. Um-hmm.

5 Q. This is one of the work papers produced by
6 you in your direct testimony; is that correct?

7 A. Correct.

8 Q. And this document is a review that was
9 conducted by the Company at the 2002 ZEI Report,
10 correct?

11 A. Yes, it is.

12 Q. And my question for you is this, on Page 4
13 of this document are various inventory miles
14 indicated in a table. To your knowledge, do you
15 agree that those numbers represent the miles of
16 cast iron and ductile iron main in the Company's
17 system at the end of the years 1993 through 2001?

18 A. It appears that's what this, yes.

19 Q. And to your knowledge, those numbers are
20 correct?

21 A. Yes.

22 Q. And if we were simply to subtract the

1 inventory miles from one year, let's say 19 -- I'm
2 sorry, 1993, from the inventory miles of the next
3 year, 1994, we would obtain the number of miles of
4 cast iron main that were installed between that
5 period of time?

6 **A.** That would have been retired.

7 **Q.** That would have been retired, thank you,
8 for that correction. And would you agree, subject
9 to check, that the lowest amount of cast iron main
10 retired was 27 miles in 1998, between '93 and 2001?

11 **A.** I mean, I would have to subtract them, but
12 you've done that, I'm assuming, and you're
13 saying --

14 **Q.** Yes, for instance in 1997, the inventory
15 was 2226 and then in 1998 the inventory was 2299, a
16 difference of approximately 27 miles. Would you
17 agree with that?

18 **A.** You're taking the difference between an
19 inventory between the years '98 and '97?

20 **Q.** Correct.

21 **A.** Yes, that's correct.

22 **Q.** And would you agree that the largest

1 retirement in any year was 62 miles, between 1995
2 and 1996?

3 A. I mean, I trust your math.

4 Q. Would you also agree, subject to check,
5 that if we assume for a moment that the correct
6 1981 inventory was 3,450 miles, that between 1981
7 and 1993 the Company retired 919 miles of cast iron
8 main?

9 A. Yes.

10 Q. And would you agree that, subject to check,
11 that that averages approximately 77 miles per year?

12 A. Yes.

13 Q. Do you know why there was such a larger
14 retirement, relatively, in those earlier years to
15 the later years?

16 A. No, I really don't.

17 Q. And you testified about the Keefner study
18 in your surrebuttal testimony, correct?

19 A. Correct.

20 Q. And have you reviewed that study?

21 A. I'm familiar with the study.

22 Q. Do you happen to have a copy of that with

1 you?

2 **A.** No, I do not.

3 MR. FOSCO: Can we go off the record for a

4 second, your Honor?

5 (Discussion off the record.)

6 MR. ZIEBART: So Mr. Fosco, will this be --

7 MR. FOSCO: ICC Staff Cross Exhibit Doerk No. 20.

8 (Whereupon, ICC Staff Cross

9 Exhibit No. 20 was

10 marked for identification

11 as of this date.)

12 BY MR. FOSCO:

13 **Q.** Mr. Doerk, I've tendered to you what has

14 been previously marked as ICC Staff Cross Exhibit

15 Doerk 20, which I'll represent to you is Page 16 of

16 the Keefner study. Do you recognize this document?

17 **A.** I recall seeing this document, yes.

18 **Q.** And do you recall this as one of the pages

19 that are contained in the Keefner study?

20 **A.** Yes.

21 **Q.** And if you could refer to Figure 8, which

22 is the graph on the bottom. Do you agree that

1 depicts the number of cast iron and ductile iron
2 replaced in each year from 1981 through 2006?

3 **A.** Yes.

4 **Q.** And again, would you agree that this graph
5 depicts what we were discussing earlier in terms of
6 larger amounts of cast iron being replaced in the
7 1981 through 1993 period?

8 **A.** Yes.

9 **Q.** And would you agree during the 1981 to 1993
10 time period the miles of cast iron main replaced
11 never fell below 40 miles per year?

12 **A.** Correct.

13 **Q.** And it does fall below 40 miles per year
14 four times after 1997?

15 **A.** Yes.

16 **Q.** Were you responsible for construction
17 during any of those years, where it fell below
18 40 miles?

19 **A.** I believe in the late '90s I would have
20 been responsible for the cast iron main
21 replacement.

22 **Q.** Do you know why the amount of main replaced

1 fell below 40 in those years?

2 **A.** Yeah, I believe there was a -- the Company
3 was replacing their CIS system, Customer
4 Information System, during those years and I think
5 some of the capital dollars to fund that project
6 came from the cast iron main replacement.

7 **Q.** So the budget was reduced for those years?

8 **A.** Yes.

9 **Q.** Thank, Mr. Doerk.

10 You and Ms. Lusson had a discussion
11 regarding the amount of cast iron main to be
12 replaced in 2009 and 2010. Do you recall that?

13 **A.** Yes.

14 **Q.** And I want to go over different issues, not
15 repeat that same testimony. The reduced amounts of
16 20 miles for 2009 and 10 miles for 2010, those are
17 the amounts that the Company is putting in base
18 rates, correct?

19 **A.** Yes.

20 **Q.** I mean, the cost.

21 **A.** The cost.

22 **Q.** And are those amounts influenced by whether

1 ICR exists or not?

2 A. I mean, ICR is not in place right now.

3 Q. So let me ask the question this way, is it
4 possible that if Rider ICR is approved, that the
5 amount for 2010 will increase or will that still
6 not happen until 2011?

7 A. I really don't know.

8 Q. Fair enough. In your testimony and, I'm
9 sorry, I can find a reference, although I don't
10 have it handy, you say that the amount of cast iron
11 main in place at the end of 2008 is 1,882 miles, do
12 you recall that?

13 A. Yes, I do.

14 Q. And so would you agree that if we subtract
15 the 20 miles for 2009 and the 10 miles for 2010, we
16 have a balance of 1,852 miles at the end of 2010?

17 A. Yes.

18 Q. I'm now going to move on to a topic which I
19 call it generally the Liberty audit. Please turn
20 to your surrebuttal testimony, Page 9. At Line 184
21 you discuss that in 2008 Peoples gas did hire one
22 contractor for 2 months to address the most

1 difficult cathodic protection cases; isn't that
2 correct?

3 **A.** That's correct.

4 **Q.** And then you conclude that section of your
5 testimony at Page 10, Lines 193 to 194, by stating,
6 quote, there are no contractor costs related to
7 corrosion control trouble shooting reflected in the
8 test year; isn't that correct?

9 **A.** That's correct.

10 **Q.** Are you aware of the test year in this
11 proceeding, Mr. Doerk?

12 **A.** 2010.

13 **Q.** And that's a future test year, correct?

14 **A.** That's correct.

15 **Q.** Are you aware of how the 2010 future test
16 year amounts were developed?

17 **A.** Yes. They were based on the amount of
18 inspections that are annually completed and on the
19 number of corrective actions that would result from
20 that. So it's -- it was really almost based on
21 2009, 2008 data.

22 **Q.** But isn't it correct that the test year was

1 actually developed based on 6 months of actual data
2 for 2008 expenses and 6 months of forecast data for
3 2008 expenses or do you not know that?

4 A. No, I don't know that.

5 Q. Did you review Ms. Hathhorn's direct
6 testimony in this docket?

7 A. What was the subject?

8 Q. Well, she addressed the Liberty audit and
9 other issues.

10 A. Okay. Yes, I believe I read hers.

11 Q. Do you happen to have a copy of her
12 testimony with you?

13 A. No, I do not.

14 Q. Would you have reviewed Ms. Hathhorn's
15 testimony outside of the Liberty audit issue?

16 A. I don't know.

17 Q. Mr. Doerk, you have been shown what has not
18 yet been admitted but what is marked ICC Staff
19 Exhibit 1.0, the direct testimony of Dianna
20 Hathhorn. Could you refer to Page 135 of her
21 direct testimony. Would you read at Lines 830 to
22 834 she describes how the test year numbers were

1 developed. And I guess I'll read, starting at Line
2 830, since the test year was built by using
3 6 months of actual 2008 expenses and 6 months of
4 forecasted 2008 expenses escalated for 2009 and
5 2010. Do you see that?

6 A. Yes, I do.

7 Q. Do you recall reading that in connection
8 with the preparation of your testimony?

9 A. No, I do not.

10 Q. Do you have any basis or knowledge to
11 contest that, her statement?

12 A. I'm sorry?

13 Q. Do you have any knowledge of your own that
14 that statement by Ms. Hathhorn is incorrect, based
15 on your involvement in this case?

16 A. I'm not sure of her statement.

17 Q. To your knowledge, did the Company make any
18 ratemaking adjustments in this case to remove the
19 cost of contractors related to corrosion control
20 trouble shooting?

21 A. I'm not sure.

22 Q. And would you agree that you produced no

1 work papers in connection with your surrebuttal
2 testimony in this case?

3 A. That's correct.

4 Q. So you had no calculations or tabulations
5 of how test year amounts were determined with
6 respect to distribution costs for the test year;
7 isn't that correct?

8 A. That's correct.

9 Q. If you could turn to Page 11 of your
10 surrebuttal testimony. If I could refer you to
11 Lines 213 through 214. You testified that there
12 were no Huron consulting costs related to the
13 Liberty Consulting pipeline safety audit in the
14 test year, correct?

15 A. That's correct.

16 Q. To your knowledge, did the Company make any
17 ratemaking adjustments in its direct testimony to
18 remove Huron consulting -- let me strike that.

19 Did the Company, in its direct
20 testimony, make any ratemaking adjustments to
21 remove Huron Consulting costs related to the
22 Liberty Consulting pipeline safety audit from the

1 test year?

2 **A.** I know I had conversations about what that
3 amount was and it would not be -- we would not have
4 those similar costs in 2010. I do remember having
5 that conversation.

6 **Q.** Would you -- are you aware that
7 Ms. Hathhorn, in her direct testimony, made an
8 adjustment of 540,000 in test year fees for Liberty
9 Consulting Group and Huron Consulting Group related
10 to the audit?

11 **A.** In the same document?

12 **Q.** Yes. You could refer to Page 32, Line 777
13 of ICC Staff Exhibit 1.

14 **A.** Line 777 to 779, is that what you're
15 referring to?

16 **Q.** Yes.

17 **A.** Yes, I see that.

18 **Q.** Does that indicate to you that at least as
19 of the Company's direct testimony, people were
20 responding to Staff's proposed adjustment that the
21 Company had in fact included Huron Consulting cost
22 in the test year in this case?

1 **A.** Yes.

2 **Q.** And you were not aware of that; is that
3 correct?

4 **A.** I was not aware that it was included?

5 **Q.** Right. You were not aware that it was
6 included in direct testimony, correct? In the
7 Company's direct testimony.

8 **A.** I'm not sure of the timing, I just remember
9 having the conversation with somebody about the
10 Huron costs and those costs should not be included.

11 **Q.** At various points in your testimony
12 regarding the Liberty audit issue, you referred to
13 prudent and necessary costs. How are you using
14 that term or how do you define that term?

15 **A.** Costs that would be normally incurred to
16 remain compliant and perform the work.

17 **Q.** Is that the only criteria you used, the
18 amount of the cost and that it was work that was --

19 **A.** It's work that the Company is required to
20 perform.

21 **Q.** What factors did you consider in reaching
22 your conclusion that those costs were prudent and

1 necessary?

2 MR. ZIEBART: I'll object, Mr. Fosco is using a
3 phrase that I don't think the witness actually
4 used. I think prudent and reasonable is the phrase
5 that he used in his testimony.

6 MR. FOSCO: He used a couple, he may have used
7 that, but he also used prudent and necessary at
8 page -- on Line 169 of your surrebuttal testimony
9 you used the phrase prudent and necessary to comply
10 with the Act.

11 JUDGE MORAN: Surrebuttal, what lines?

12 MR. FOSCO: It's on Line 169. Sentence begins on
13 Line 167.

14 BY MR. FOSCO:

15 Q. Do you see that?

16 A. Yes.

17 Q. I wasn't trying to omit, but reading the
18 full sentence, does that change your answer about
19 what you meant by prudent and necessary?

20 A. They are costs that would be associated
21 with conducting normal business and normal
22 maintenance activities, correct.

1 **Q.** What factors did you consider, in this
2 particular instance, reaching the conclusion on
3 Lines 167 to 169 that the costs that you discussed
4 there were prudent and necessary?

5 **A.** Because it was associated with work that
6 would normally need to be performed.

7 **Q.** You did not consider any other reasons as
8 to why the Company might have been performing that
9 work in that particular year, such as not timely
10 conducting work in earlier periods

11 **A.** Which work are you talking about?

12 **Q.** Well, let's have a general discussion,
13 then. In your opinion, does the reason that the
14 company is performing work in a particular year
15 enter into your determination of whether those
16 costs are prudent and necessary?

17 **A.** Yes, they would be tasks that would
18 normally be associated with our normal work,
19 nothing above and beyond that.

20 **Q.** So if the expense was more than a normal
21 amount, in your opinion, it would be -- potentially
22 be imprudent?

1 **A.** I mean, the amount varies with the
2 workload -- the amount varies with the workload.
3 And that workload is subject to change from year to
4 year.

5 **Q.** Would you agree or in your experience
6 inside of gas operations that the Company sometimes
7 develops a backlog of work?

8 **A.** There is pending work that is required to
9 be done. Whether it's done over a month's period
10 of time, over a year's period of time, the work
11 needs to be performed.

12 **Q.** And you're familiar with Docket, I hope I
13 have the number right, 06-0311, correct?

14 **A.** Is that -- is that the corrosion one?

15 **Q.** Yes, the penalty proceeding for the
16 corrosion.

17 **A.** Yes.

18 **Q.** And would you agree that in that docket the
19 Commission found that the Company failed to perform
20 certain corrosion inspection activities in a timely
21 manner?

22 **A.** From 2003 and 2004.

1 **Q.** And using that as a basis, was there some
2 catchup work that had to be performed subsequent to
3 that period as a result of not timely performing
4 those inspections?

5 **A.** Those inspections were compliant in early
6 2005.

7 **Q.** Was an extra amount of work required to
8 catch up?

9 **A.** The only work that was done is we did
10 accelerate or we did drive down that pending
11 workload to reduce the amount of time. It is work,
12 again, whether you did it over 6 months or you did
13 it over 1 month, the work needed to be performed.

14 **Q.** And in your opinion, regardless of the
15 Company's prior violations that work could never
16 been unreasonable and imprudent?

17 **A.** That work was all work that was required to
18 be done in order to bring the system up to its
19 proper level. It was all pending work that was
20 required to be done.

21 **Q.** And because of that, in your opinion, it's
22 not relevant why the Company had to do that work in

1 that particular year?

2 **A.** That work would have been generated by
3 current inspections. Any time you do inspections,
4 some of them will generate a corrective action.
5 Next year there is going to be corrective action,
6 this year there is corrective action.

7 **Q.** You are aware, are you not, that the
8 Commission entered a directive in Docket 06-0311
9 that incremental -- well, here, let's refer to your
10 rebuttal testimony. Page 3, Lines 53 to 55. There
11 you testify regarding incremental cost associated
12 with untimely corrosion control inspections for
13 violations of Illinois Pipeline Safety Act; isn't
14 that correct?

15 **A.** Correct.

16 **Q.** And that's in response to Ms. Hathhorn's
17 testimony, correct, regarding Docket 06-0311?

18 **A.** I believe so.

19 **Q.** And is it your understanding that the
20 Commission directed in that docket that there not
21 be recovery of an incremental cost associated with
22 untimely corrosion control inspections?

1 **A.** Yes.

2 **Q.** Can you give me an example of where there
3 could have been potentially an incremental cost
4 associated with untimely corrosion control
5 inspections?

6 **A.** If we had not performed an inspection and
7 you had a main corroded because of not taking that
8 corrective action, that would have been something
9 that would have been, because of an inspection not
10 being performed, that would be one thing I could
11 think of off the top of my head.

12 **Q.** If there had been inflation costs between
13 the year it was supposed to have been conducted and
14 year it was, is that potentially an incremental
15 cost?

16 **A.** State the question again.

17 **Q.** If the cost to perform the work increased
18 between when it should have been performed and when
19 it was, due to inflation or other factors, would
20 that be an incremental cost, in your opinion,
21 related to that work?

22 **A.** I'm not sure how to answer that. Again,

1 there was a workload that was there that we decided
2 to accelerate it. I mean, it was not that we were
3 not untimely on the corrective action work, it just
4 seemed a prudent thing to do is to reduce the
5 amount of time.

6 **Q.** Well, there were some corrosion inspections
7 that were not performed when they were originally
8 supposed to be performed that had to be performed
9 to at least come into compliance on a going forward
10 basis, correct?

11 **A.** Those were taken care of in 2005.

12 **Q.** And there is related work that is sometimes
13 needed in response to corrosion inspections,
14 correct?

15 **A.** That's correct.

16 **Q.** Can you give us a summary of the basic work
17 or at least an example, if there is many different
18 types?

19 **A.** A corrosion inspection could lead to the
20 installation of an anode on that main to protect
21 it.

22 **Q.** And would you agree that there were some

1 anodes installed after 2005, related to these 2003
2 to 2005 corrosion inspections?

3 **A.** They would have been, based on those
4 inspections, would have been installed in 2005,
5 correct.

6 **Q.** And, in fact, the contractor we discussed
7 earlier, weren't they hired to, in fact, perform
8 some corrective work with respect to pipes for
9 which there had been, I'm not sure if the word is
10 inadequate or insufficient corrosion readings?

11 **A.** The contractor that you refer to in the
12 testimony is one that assisted us in trouble
13 shooting and who was the one, we could not quite
14 figure out what was the cause of it, so that was
15 what that contractor was.

16 **Q.** And that was related, was it not, to the
17 follow-up work from the corrosion inspections that
18 were the subject of 06-0311?

19 **A.** Yes. And that's ongoing.

20 **Q.** Did you have any responsibility for
21 tracking the cost of doing work related to the
22 corrosion inspection work performed following the

1 order in 06-0311?

2 A. It would be captured in our expenses.

3 Q. But there was no -- well, are you aware
4 that the Commission ordered that a tracking
5 mechanism be implemented?

6 A. Yes.

7 Q. Were you responsible for compliance with
8 that directive?

9 A. Yes.

10 Q. And am I correct, if I understand from
11 Mr. Schott's testimony, no such tracking mechanism
12 was, in fact, implemented; isn't that correct?

13 A. That's correct.

14 Q. And did you make the decision not to
15 implement that tracking mechanism?

16 A. The decision -- there was nothing to track.

17 Q. I understand that's your position, but my
18 question is, did you come to a decision at some
19 point in time that you didn't need to track those
20 costs?

21 A. No.

22 MR. FOSCO: Thank you, Mr. Doerk, I have no

1 further questions.

2 JUDGE MORAN: At this point, we were going to
3 take a short break, but we might as well break for
4 lunch. So 12:30 we are resuming. I think we have
5 one more person still doing cross and that's City.

6 MS. SODERNA: CUB has no cross for Mr. Doerk.

7 JUDGE MORAN: Well, then, why don't we just do --

8 MR. FOSCO: Your Honor, may I move for admission
9 of ICC Staff Cross Exhibits 19 and 20?

10 MR. ZIEBART: No objection, your Honor.

11 JUDGE MORAN: Okay, hearing no objection, both
12 cross exhibits are admitted.

13 (Whereupon, ICC Staff Cross
14 Exhibits Nos. 19 and 20 were
15 admitted into evidence as
16 of this date.)

17 JUDGE MORAN: How much redirect do you have?

18 MR. ZIEBART: I don't think very much. I'm happy
19 to go now.

20 JUDGE MORAN: All right, then that's fine. Let's
21 do that and then we can release the witness.

22

1 REDIRECT EXAMINATION

2 BY

3 MR. ZIEBART:

4 Q. Mr. Doerk, you were asked some questions
5 about whether or not you agreed with Mr. Schott
6 about whether Peoples Gas could guarantee that it
7 would complete work by 2030. Do you remember that?

8 A. Yes.

9 Q. And it seemed to me that as it -- as
10 Ms. Lusson was questioning you, that you and
11 Mr. Schott were in agreement that Peoples Gas could
12 not guarantee that it would finish the \$2 billion,
13 21-year project by a particular date; is that fair?

14 A. Yes, that's correct.

15 Q. Can you comment on whether you think the
16 approval of Rider ICR would make it more or less
17 likely that you would complete it by 2030?

18 A. More likely.

19 Q. Mr. Fosco asked you about whether costs
20 were over and above what's prudent and necessary,
21 remember that?

22 A. Yes.

1 **Q.** And in your testimony you also used the
2 phrase prudent and reasonable. Are those -- are
3 you talking about two different standards or are
4 you really talking about the same thing there?

5 **A.** No, I'm referring to the same thing.

6 **Q.** And in your view, what kinds of costs would
7 you consider to be over and above what's prudent
8 and reasonable or prudent and necessary to comply
9 with the Act?

10 **A.** If it would have been a cost that would
11 have been generated on account of us not doing
12 something, that's what I would consider above and
13 beyond reasonable.

14 **Q.** And can you give the Commission some idea
15 of what kinds of things could those be, what types
16 of --

17 **A.** I was trying to refer to this earlier, if
18 we weren't taking corrosion readings and we had a
19 main that was corroding because of not taking those
20 readings, that would be something that, because of
21 us not taking those readings, that would be above
22 and beyond what I consider reasonable. Normal

1 corrective action to repair that, no, that would be
2 part of our normal everyday work.

3 Q. And do you know whether Peoples Gas had any
4 situations like that during 2008, did they have
5 costs of that type?

6 A. No, we did not.

7 JUDGE MORAN: I'm a little unclear on that. Okay,
8 you are talking about this corroding, you are
9 talking about the replacement of that corroding
10 that would be an incremental cost?

11 THE WITNESS: Yes, that's correct.

12 JUDGE MORAN: Okay, all right.

13 BY MR. ZIEBART:

14 Q. You mentioned that Peoples Gas took certain
15 actions to reduce the backlog of inspections. What
16 did it do?

17 A. The inspections or the corrective actions
18 based on the inspections? We hired a contractor to
19 reduce the backlog of corrective actions. The
20 inspections were caught up in 2005.

21 Q. And over this period from 2005 to the
22 present, did Peoples Gas also hire more corrosion

1 control inspectors?

2 A. Yes, we did.

3 Q. Would you say Peoples Gas hired more
4 corrosion control inspectors than were necessary?

5 A. We hired enough to do all of the
6 inspections and do trouble shooting. We hired
7 enough inspectors that would be able to cover all
8 the work.

9 Q. My question is did you hire more than
10 enough?

11 A. Yes, we did.

12 Q. Did you hire more than what you considered
13 to be necessary? If 8 new inspectors is what was
14 prudent and reasonable, did you hire more than 8?

15 A. No, we hired what was required to get the
16 work done.

17 Q. Mr. Fosco, I guess, well, hall I don't know
18 if he asked you this or this was part of your
19 answer, but you talked about Peoples Gas spending
20 money on installing anodes. Do you remember that?

21 A. Yes.

22 Q. And do you install an anode because of when

1 the inspection occurred, late or on time, or do you
2 install the anode because there is corrosion found
3 on the main?

4 **A.** The anode, in this case, would be installed
5 as a result of a corrective action -- or I'm sorry,
6 the corrective action would be as a result of the
7 corrosion inspection.

8 **Q.** And why do they put that on there, what
9 does the anode do?

10 **A.** The anode actually protects the integrity
11 of the steel pipe.

12 **Q.** Does it slow or reverse the corrosion?

13 **A.** It would eliminate it.

14 MR. ZIEBART: I have no further questions for
15 Mr. Doerk.

16 JUDGE MORAN: Any recross?

17 MS. LUSSON: I just have a couple of questions.

18 RE CROSS EXAMINATION

19 BY

20 MS. LUSSON:

21 **Q.** Mr. Doerk, Mr. Binnig (sic) referenced the
22 \$2 billion main replacement program. In fact when

1 you add in the O and M costs that are cited by Mr.
2 Marano, it's been a \$2.6 billion program, isn't it?

3 A. I'm just not familiar enough with those
4 numbers.

5 Q. You accepted, though, Mr. Binnig's (sic)
6 representation of it, at least a \$2 billion
7 program; is that right?

8 A. Yes.

9 Q. You stated that with Rider ICR that it's
10 more likely that the Company could complete by
11 2030. Isn't it likely, given the size of the
12 program, too, that the Company would also have to
13 come in for frequent rate cases, even with ICR,
14 given the size of that budget?

15 A. I'm not sure.

16 Q. And do you know how much money, sitting
17 here today, would be recovered through Rider ICR as
18 a part of that \$2 billion program?

19 A. I'm sorry, I really don't know.

20 Q. And just to be clear, adoption of Rider ICR
21 wouldn't, in and of itself, guarantee completion by
22 2030, do you agree?

1 **A.** Yes.

2 MS. LUSSON: No further questions.

3 MR. FOSCO: Your Honor, I just have a few.

4 RECROSS EXAMINATION

5 BY

6 MR. FOSCO:

7 **Q.** Isn't it true, Mr. Doerk, that one of the
8 actions regarding the 2003 to 2005 corrosion
9 protection issues, was the Company recording
10 reading results on the wrong pipe segment?

11 **A.** That had been occurring, yes.

12 **Q.** And isn't it true, that, with respect to
13 those situations, the Companies would install an
14 anode, if needed, on the wrong segment?

15 **A.** On the wrong segment, correct.

16 **Q.** And then if the Company corrected that they
17 would have to install another anode on the correct
18 segment, correct?

19 **A.** Correct.

20 **Q.** And would you agree that's an incremental
21 cost, because if they had done it right you would
22 have only installed one anode?

1 **A.** That would have preceded the docket,
2 though. Those issues were corrected in 2005. I
3 believe the docket came out in the end of 2006.
4 That would have been corrected before that.

5 **Q.** So it -- okay. And when you indicated that
6 installing an anode would, I forget if your word
7 was stop or terminate the corrosion, you mean it
8 would stop it on a going forward basis, correct?

9 **A.** That's correct.

10 **Q.** It doesn't repair past corrosion that's
11 already occurred?

12 **A.** That's correct.

13 **Q.** And how do you know that there were no
14 pipes that had to be replaced because of extra
15 corrosion during the period of delay in the
16 inspections?

17 **A.** Looking at leaks, those would be a leak
18 that would be defined as a corrosion leak, and I'm
19 familiar enough to know that our corrosion leaks
20 are basically on bare steel pipes or on cast or
21 ductile iron and not on steel segments.

22 **Q.** You didn't perform any study or analysis in

1 this docket for that purpose, did you?

2 **A.** No, I did not.

3 **Q.** And you didn't produce any work papers that
4 documented any study of analysis of that factor
5 correct,

6 **A.** No, I did not.

7 MR. FOSCO: Thank you, no further.

8 JUDGE MORAN: Okay, with that, I guess no further
9 questions. Mr. Doerk, you are excused. Thank you.

10 (Witness excused.)

11 JUDGE MORAN: We'll start with the next witness
12 right after lunch. That will be 12:30.

13 (Lunch recess.)

14

15

16 (Change of reporter.)

17

18

19

20

21

22

1 JUDGE MORAN: We can back on the record,
2 and you can start with that correction.

3 I've been informed that there is a
4 preliminary matter that needs to be taken care of.

5 MR. ZIBART: Thank you, your Honor.

6 In the testimony of Mr. Doerk, which we
7 just put in the record. I now understand that I
8 put the wrong version of his direct testimony for
9 the Peoples Gas docket. That's Peoples Gas Exhibit
10 ED 1.0. There, in fact, is a Peoples Gas Exhibit
11 ED 1.0 revised, which we filed on e-Docket on May
12 29, 2009, and that version corrected three
13 typographical errors in Mr. Doerk's testimony. And
14 that is the version that should, in fact, be put
15 into the record.

16 JUDGE MORAN: And, therefore, you're moving to
17 put in that?

18 MR. ZIBART: Yes, we are, your Honor.

19 JUDGE MORAN: Okay. Are there any objections to
20 the revised copy of the direct of Mr. Doerk's
21 testimony being put into the record?

22 Hearing none, that testimony is admitted

1 as indicated.

2 (Whereupon, Peoples Gas Exhibit 1.0 Revised was
3 admitted into evidence.)

4 JUDGE HAYNES: So is Exhibit 1.1 still supposed
5 to be the version filed on February 25th, or should
6 that be --

7 MR. ZIBART: That's right. 1.1 was not changed.

8 We're ready to call our next witness.

9 JUDGE MORAN: Yes. We're ready to call the next
10 witness. Please, Counsel.

11 MR. ZIBART: The next witness is Mr. Hengtgen.

12 (Witness sworn.)

13 JOHN HENGTGEN,
14 called as a witness herein, having been first duly
15 sworn, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY

18 MR. ZIBART:

19 Q. What is your name, sir?

20 A. John Hengtgen.

21 Q. And would you spell your last name.

22 A. H-e-n-g-t-g-e-n.

1 Q. And by whom are you employed?

2 A. Integrays Business Support, LLC.

3 Q. And what's your title?

4 A. Rate case consultant.

5 Q. Mr. Hengtgen, has written direct testimony

6 been prepared by you or under your direction or

7 control for submission in Commission Dockets

8 09-0166 and 09-0167?

9 A. Yes, it has.

10 Q. And do you have in front of you a document

11 that's been marked for identification NS Exhibit

12 JH-1.0?

13 A. Yes, I do.

14 Q. And is that a true and correct copy of your

15 written direct testimony in the North Shore docket?

16 A. Yes, it is.

17 Q. And attached to it is an attachment labeled

18 NS Exhibit JH-1.1?

19 A. Yes, I do.

20 Q. Okay. And you also have in front of you a

21 document that's been marked for identification

22 Peoples Gas Exhibit JH-1.0?

1 **A.** Yes, I do.

2 **Q.** And is that a true and correct copy of your
3 written direct testimony in the Peoples Gas docket?

4 **A.** Yes, it is.

5 **Q.** And attached to that document is an exhibit
6 labeled PGL Exhibit JH-1.1?

7 **A.** Yes.

8 **Q.** And both NS and PGL Exhibit 1.0 and 1.1
9 were part of the Utilities' initial filing on
10 February 25th, 2009?

11 **A.** Yes, they were.

12 **Q.** Those have not been revised, have they?

13 **A.** No, they have not.

14 **Q.** And has written rebuttal testimony also
15 been prepared by you for submission in these
16 dockets?

17 **A.** Yes.

18 **Q.** And do you have in front of you what's been
19 marked for identification as NSPGL Exhibit JH-2.0?

20 **A.** Yes.

21 **Q.** Is that a true and correct copy of your
22 written rebuttal testimony in the consolidated

1 dockets?

2 **A.** Yes, it is.

3 **Q.** And attached to that document are
4 attachments labeled JH-2.1N and 2.1P, JH-2.2N and
5 JH-2.2P, JH-2.3 N and 2.3P, JH-2.4N and 2.4P,
6 JH-2.5N and 2.5P, JH-2.6N and 2.6P, and JH-2.7N and
7 2.7P; is that right?

8 **A.** That's correct.

9 **Q.** And those documents were all filed on
10 July 8, 2009; is that right?

11 **A.** Yes.

12 **Q.** And has written surrebuttal testimony also
13 been prepared by you or under your direction and
14 control for submission of these dockets?

15 **A.** Yes, it has.

16 **Q.** And do you have in front of you a document
17 that's been marked for identification NSPGL Exhibit
18 JH-3.0?

19 **A.** Yes.

20 **Q.** And is that a true and correct copy of your
21 written surrebuttal testimony in the dockets?

22 **A.** Yes, it is.

1 **Q.** And attached to that testimony are
2 attachments labeled JH-3.1N and 3.1P, JH-3.2N and
3 3.2P, JH-3.3P, JH-3.4N and 3.4P, JH-3.5N and 3.5P,
4 JH-3.6N and 3.6P, JH-3.7N and 3.7P, JH-3.8N and
5 3.8P JH-3.9N and 3.9P and JH-3.10N and 3.10P; is
6 that correct?

7 **A.** Can you I just check one thing on that?

8 **Q.** Yes.

9 JUDGE HAYNES: So for 3.3 three was there only a
10 P?

11 MR. ZIBART: I'm sorry?

12 JUDGE HAYNES: For 3.3 there is only P?

13 MR. ZIBART: There's only a P for 3.3, that's
14 right.

15 And I should actually -- okay. All of
16 those -- okay. Well...

17 BY MR. ZIBART:

18 **Q.** Do you have those?

19 **A.** I have what I thought were my exhibits in
20 front of me, yes.

21 **Q.** I'm sorry?

22 **A.** I have my -- what I believe was filed in my

1 surrebuttal testimony exhibits in front of me. And
2 I don't think that list quite corresponds to the
3 list that you read to me.

4 Q. Okay.

5 A. 3.3 is just a Peoples exhibit.

6 Q. Right.

7 A. And then I believe that was also corrected.
8 And you were going to get to that?

9 Q. I am.

10 A. And then on 3.8 is just a North Shore PGL
11 exhibit. There's no N and P.

12 Q. No N and P. Okay.

13 A. And then 3.9, there's no N and P.

14 Q. Okay. And with the exception of 3.3P,
15 those were all filed on the Commission's e-Docket
16 system on August 17th, 2009?

17 A. Yes, they were.

18 Q. And then a corrected version of 3.3P was
19 filed on August 18th, 2009?

20 A. That is correct.

21 JUDGE HAYNES: August 18th?

22

1 MR. ZIBART: August 18th.

2 BY MR. ZIBART:

3 Q. Mr. Hengtgen, if I were to asked you the
4 questions set forth in the documents marked North
5 Shore Exhibit JH-1.0, Peoples Gas Exhibit JH-1.0,
6 NSPGL Exhibit JH-2.0 and NSPGL Exhibit JH-3.0,
7 would you give the answers set forth in those
8 documents subject to your later revisions made in
9 your rebuttal and surrebuttal testimonies?

10 A. Yes, I would.

11 Q. And you intend that these documents will
12 comprise your sworn testimony in this docket?

13 A. Yes, I do.

14 MR. ZIBART: So I would move those documents
15 into evidence. I can read them again if you want
16 me to, but...

17 Thank you.

18 JUDGE MORAN: Are there any objections to the
19 admission of any of the exhibits as indicated in
20 the and the attachments thereto?

21 Hearing none, all of the exhibits and
22 attachments are admitted.

1 (Whereupon, North Shore Exhibit JH-1.0, Peoples Gas
2 Exhibit JH-1.0, NSPGL Exhibit JH-2.0 and NSPGL
3 Exhibit JH-3.0 and attachments were admitted into
4 evidence.)

5 MR. ZIBART: I have no further questions for
6 Mr. Hengtgen on direct.

7 JUDGE MORAN: Okay. And, therefore, the witness
8 is being tendered for cross. And we have two
9 parties who indicated they want to cross this
10 witness, the Attorney General and Staff.

11 And who wishes to go first?

12 MS. LUSSON: I'll go first, your Honor.

13 JUDGE MORAN: All right. Thank you,
14 Miss Lusson.

15 CROSS-EXAMINATION

16 BY

17 MS. LUSSON:

18 Q. Good afternoon, Mr. Hengtgen.

19 A. Good afternoon Miss Lusson.

20 Q. I'm sorry. Am I pronouncing it Hengtgen?

21 A. It rhymes with pension, Hengtgen.

22 Q. Hengtgen. Okay. Thank you.

1 I am told that you're the person that
2 can define exactly what measuring and regulating
3 station equipment city gate check stations are,
4 that equipment. Mr. Schott deferred that question
5 and I'm told you're the person that can define
6 that.

7 **A.** Yeah, I believe I can read a definition I'm
8 familiar with that particular account.

9 **Q.** Thank you.

10 **A.** I'm going read right from the Uniform
11 System of Accounts --

12 **Q.** Sure.

13 Or if -- and feel free to amend it in
14 common parlance, too?

15 **A.** Well, it's pretty short and pretty
16 straightforward.

17 Account 379 measuring and regulating
18 station equipment at city gate check stations.
19 This account shall include the cost of -- cost
20 installed of meters, gauges and other equipment
21 used in measuring and regulating the receipt of gas
22 at entry points to the distribution system.

1 **Q.** Thank you, Mr. Hengtgen.

2 **A.** You're welcome.

3 **Q.** And Account 381 is meters including meter
4 installations. And I'm referencing that account
5 because it's one of the accounts that would be --
6 the equipment installation costs would be covered
7 under Rider ICR.

8 My question is, if it's -- Account 31 is
9 defined as meters including meter installations can
10 you tell me what other costs would be involved
11 outside of meter installations. I'm just trying to
12 understand the reference to both meters and meter
13 installations there.

14 **A.** Well, I have to apologize. The system of
15 accounts I'm looking at, which I believe was
16 adopted in the 2003 has Account 381 has meters and
17 382 as meters installations.

18 It's my understanding -- I don't know if
19 you want the definition but the items that are
20 included in the meters account is -- there's labor
21 in there, there's meter bars, pipe fittings, seals,
22 shelves. And then in meter installation it has a

1 similar listing.

2 Q. Okay. If you could, is it a lengthy
3 listing for purposes of meters -- defining meters?

4 A. No, it's not.

5 Q. Could you read that, please.

6 A. Items that in this account are meters
7 itself, COX, labor, locks, meter bars, pipe and
8 fittings, seals, shelves, swivels and bushings and
9 transportation costs.

10 Q. And now what is included as meters
11 installations?

12 A. Well, it's a very -- very similar listing
13 but the listing is -- it eliminates the meter costs
14 and the rest of the costs then are COX, locks
15 labor, meter bars, pipe and fittings, seals,
16 shelves, swivels and bushings transportations
17 costs.

18 Q. Okay. And for house regulators Account
19 383, can you indicate what exactly would be
20 included in that account.

21 A. Certainly.

22 The listing is the house regulator, Cox,

1 labor, locks, pipe and fittings, regulator vents
2 swivels and bushings and transportation costs.

3 Q. Could you do the same for Account 380
4 services?

5 A. Sure.

6 You just want the list of the items that
7 are in that account.

8 Q. Yes, please.

9 A. Curb valves and curb boxes; excavation
10 including shoring, bracing, bridging, pumping,
11 backfill and disposal of excess excavated material;
12 landscaping including lawns and shrubbery;
13 municipal inspection; pavement disturbed including
14 cutting and replacing pavement, pavement base and
15 sidewalks; permits; pipe and fittings including
16 saddle, comma, T, comma, or other fitting on the
17 street; pipe coding; pipelining; protection of
18 street openings; service drips; service valves at
19 head of service when installed or furnished by the
20 Utility.

21 Q. And if I could ask to you read what is
22 counted under Account 376, distribution mains.

1 **A.** This is a lengthy list of 26 items. Would
2 you like me to read the entire thing?

3 I will if you would like.

4 **Q.** Yes. If you would, I'd appreciate that.
5 Thank you.

6 **A.** And I may have a little pronunciation
7 difficulties here, caissons; tunnels; trussels for
8 submarine mains; clamps; leak bell and spigot when
9 installed at time of construction when clamps are
10 installed subsequent to construction the accounting
11 shall be in accordance with Gas Plan Instruction
12 10, Paragraph C, Item No. 1; drip lines and pots;
13 electrolysis tests in connection with new
14 construction; excavation including shoring, bracing
15 bridging, pumping, backfill and disposal of excess
16 excavated material; hauling, unloading and
17 stringing pipe; lamping and watching new
18 construction; line pack gas; municipal inspection;
19 pavement disturbed including cutting and
20 replacement pavement, pavement base and sidewalks;
21 permits; pipe coding; pipe and fittings; pipe lane;
22 pipe support; protection of street openings;

1 relocating city storm and sanitary sewers, catch
2 basins, et cetera or protecting same in connection
3 with new construction; replacement of municipal
4 drains and culverts in connection with new
5 construction; roadway boxes; shifting excavating
6 material due to the traffic conditions in
7 connection with new construction; sleeves and
8 couplings; special crossovers; bridges and
9 foundations for special construction; surveying and
10 staking lines; valves not associated with pumping
11 or regulating equipment; welding; wood blocking.

12 **Q.** Thank you.

13 And at the risk of having you read a
14 long list again, could you do the same for Accounts
15 378 and -- which is measuring and regulating
16 station equipment general.

17 **A.** I guess that's very similar to my first
18 list I read to you.

19 JUDGE MORAN: Is it short or long?

20 THE WITNESS: It's ten items.

21 JUDGE MORAN: Okay.

22 THE WITNESS: Automatic control equipment;

1 foundations; gauges and instruments; governors or
2 regulators; meters; motorizing equipment; oil
3 fogging equipment -- which I don't think we use
4 anymore; piping; pressure relief equipment; vaults
5 or pits including valves contained therein.

6 BY MS. LUSSON:

7 Q. And is the next account, 379, which is
8 measuring and regulating station equipment, again,
9 only for city gate check stations, is that a
10 similar list?

11 A. No. There really is no list to that. It
12 just refers back to 378. So it would be and
13 identical list.

14 Q. Thank you.

15 A. You're welcome.

16 Q. Now, Mr. Hengtgen, when main replacements
17 are made and costs are recorded currently, if --
18 when expenses are incurred are those expenses the
19 kinds of expenses that you've read as defined in
20 those accounts, are all of those expenses
21 associated with those items recorded in those six
22 accounts?

1 **A.** I'll answer that yes, if they're supposed
2 to be recorded in those accounts they are recorded
3 in those accounts.

4 **Q.** Mr. Hengtgen, as understand it, your
5 position is rate case consultant in the Regulatory
6 Affairs Division of Integrys Business Support; is
7 that correct?

8 **A.** Correct.

9 **Q.** And Integrys Business Support is a
10 subsidiary of the parent company, Integrys?

11 **A.** It's my understanding, yes.

12 **Q.** And if you know, Mr. Hengtgen, is it
13 correct that Peoples Gas and North Shore are -- can
14 be expected to file more frequent rate cases or
15 regular rate cases in the future such as in a
16 pattern that we've currently experienced in the
17 last two years? In other words, there was one
18 filed in 2007 and there's one that's been filed in
19 2009. Is that pattern expected to continue?

20 **A.** I really don't know. My position with the
21 Company is once a decision is made to file, I work
22 on the preparation and the litigation of that case.

1 **Q.** And then are you not involved in the
2 decision itself as to whether or not rate cases
3 should be filed?

4 **A.** No, I'm not.

5 **Q.** And have you received any information
6 well -- strike that.

7 MS. LUSSON: Thank you, Mr. Hengtgen. That's
8 all I have.

9 JUDGE MORAN: And I believe Staff has some
10 questions.

11 MR. FEELEY: Yes.

12 CROSS-EXAMINATION

13 BY

14 MR. FEELEY:

15 **Q.** Good afternoon, Mr. Hengtgen. My name is
16 John Feeley and I represent the Staff.

17 **A.** Good afternoon, Mr. Feeley.

18 **Q.** Most of my questions I believe will deal
19 with your surrebuttal testimony. So if you want to
20 pull that out. If you want to go to Page 8 is
21 where I'll first start.

22 **A.** Okay. I'm there.

1 **Q.** Direct your attention to Lines 152 through
2 155. You state that the key issue regarding
3 pass-through taxes is when the Utilities receive
4 cash from rate payers and when such taxes are paid;
5 is that correct?

6 **A.** That is correct.

7 **Q.** And down at lines 167 through 172, you
8 reference Mr. Kahle's testimony from Nicor's most
9 recent rate case, Docket No. 08-0363 regarding
10 Nicor's collection and payment of the gross
11 receipts and municipal utilities' tax; is that
12 correct?

13 **A.** That is correct.

14 **Q.** Would you agree that Mr. Kahle's testimony
15 states that gross receipts, slash, municipal
16 utilities tax is collected during one month and
17 generally paid by the end of the following month?

18 **A.** That is correct.

19 **Q.** Can you indicate in your surrebuttal
20 testimony that Nicor bills and receives customers'
21 payments of these taxes, holds them for a period of
22 time, and then remits them at a later date; is that

1 correct?

2 **A.** Yes, the statement Mr. Kahle was referring
3 to led me to that conclusion, yes.

4 **Q.** Okay. And Peoples Gas and North Shore has
5 a different process than Nicor's; is that correct?

6 **A.** Yes, that is.

7 **Q.** Go to Page 9 of your testimony, Line 176.
8 At that line you state that Peoples Gas has an
9 agreement with the City of Chicago that sets up a
10 different process for the payment of pass-through
11 taxes; is that correct?

12 **A.** Correct.

13 **Q.** Does that agreement with the City of
14 Chicago change the payment due date of the monthly
15 tax liability?

16 **A.** No, it did not.

17 **Q.** So a payment of tax liability for August of
18 2009 would be due on or before September 30th of
19 2009?

20 **A.** I believe that is correct.

21 **Q.** Direct your attention still on Page 9,
22 Lines 184 through 194, going onto Page 10 there.

1 You describe the difference between the process
2 used by Peoples Gas and the process used by Nicor
3 for paying pass-through taxes is that the municipal
4 utilities tax would be paid to the City of Chicago
5 approximately as it is received by Peoples Gas from
6 its customers?

7 **A.** Give me a minute to read this, please.

8 Yes, I do have that statement in my
9 testimony. That is correct.

10 **Q.** And in particular you're saying they're
11 paid approximately as it is received by Peoples
12 Gas's customers they're paid?

13 **A.** Yes.

14 **Q.** Go to your Exhibit 3.9, Page 8 of 9.

15 **A.** I'm there.

16 **Q.** And that's a document called Schedule 1
17 Calculation of Estimated Receipts, Example Only?

18 **A.** Correct.

19 **Q.** And it's for the August tax liability?

20 **A.** That is correct.

21 **Q.** Payable by the Company on or before
22 September 30th?

1 **A.** That is correct.

2 **Q.** And so would you agree that Schedule 1 is
3 an example of the August tax liability to the City
4 of Chicago that is due on or before September 30th?

5 **A.** This is an example only, and it's labeled
6 as hypothetical for illustrated purposes, yes.

7 **Q.** So it's an example of the August tax
8 liability that would be paid to the City of Chicago
9 that's due on or before September 30th?

10 **A.** That is correct.

11 **Q.** Would you agree that the source of cash for
12 the payment of the August tax liability is from the
13 customers' payment of their bills?

14 **A.** Could you repeat that question.

15 **Q.** Okay. Would you agree that the source of
16 cash for the payment of the August tax liability is
17 from the customers' payment of their bills?

18 **A.** The customers pay the taxes over a course
19 of several months, and the Company pays the tax to
20 the taxing authority, which in this particular case
21 is the City of Chicago, based upon an estimate of
22 what is received, whether or not the taxes actually

1 were received.

2 **Q.** All right. But the source of cash for the
3 payment is coming from customers' payment of bills;
4 right?

5 **A.** Certainly. That's typically the only
6 source of cash that the Company has except for
7 borrowings.

8 **Q.** Okay. Now, I'm going to look at your chart
9 there in the center, the first column shows month
10 and then it goes August, July, June, May. And then
11 same exhibit, 3.9, Page 8 of 9. I'm going to have
12 some questions on that chart there.

13 **A.** Okay.

14 **Q.** And then there's another column where you
15 have applicable monthly collection percentage
16 and -- for August the percentage is 25 percent. Do
17 you see that?

18 **A.** Yes, I do see that.

19 **Q.** All right. And I'm going have some
20 questions for you on that.

21 Would you agree that if 10 percent or
22 the \$925,870 of the August tax liability is based

1 on what is deemed collected during August for taxes
2 billed to customers during May?

3 **A.** Yes, I would. It's deemed collected. It
4 doesn't, in fact, make it collected. Correct.

5 **Q.** Right.

6 And would you agree that the 15 percent
7 or the \$862,521 of the August tax liability is
8 based on what is deemed collected during August for
9 taxes billed to customers during June?

10 **A.** Yes, that's correct. It's estimated to be
11 collected.

12 **Q.** And would you agree that 50 percent or
13 \$2,406,660 of the August tax liability is based on
14 what is deemed collected during August for taxes
15 billed to customers during July?

16 **A.** Yes, deemed or estimated.

17 **Q.** And would you agree that 25 percent or
18 \$998,965 of the August tax liability is based on
19 what is deemed collected during August for taxes
20 billed to customers during August?

21 **A.** Yes, again, deemed or estimated to be
22 collected.

1 **Q.** Okay. And the -- on your example there,
2 the August tax liability is \$4,834,016?

3 **A.** That is correct.

4 **Q.** And so then that August tax liability of
5 that amount is based on the estimated gross
6 receipts net of a provision of uncollectible
7 accounts that are deemed collected during August;
8 is that correct?

9 **A.** Under this hypothetical example I believe
10 that is correct.

11 **Q.** And your example there is an example of --
12 supposed to be an example of what is occurring to
13 the Company. It's not just -- there's some basis
14 for your example there; right? It's supposed to
15 somehow represent actuality, what you expect to
16 occur in August; correct?

17 **A.** Yes. This was an agreement with the City
18 of Chicago that the Company entered into that
19 developed those percentages.

20 **Q.** Okay. How would the August tax liability
21 be paid?

22 **A.** I believe that would be paid on the due

1 date --

2 Q. By check or electronic fund transfer or
3 wire transfer? That's what I mean by how would it
4 be paid.

5 A. How it would be paid?

6 Q. Yes.

7 A. Okay. I need to go back to my direct where
8 I explain how that is paid because the various
9 taxes are paid in different forms.

10 Q. Okay. If we could go to Pages 24 through
11 25 that might help.

12 A. Sure. I'm getting there.

13 Yes, they are paid by check.

14 Q. Okay. And when would it be paid?

15 A. On the statutory due dates.

16 Q. So for August it would be on or before
17 September 30th, '09?

18 A. Yes, that is correct.

19 Q. And September's would be on or before the
20 end of October '09?

21 A. That is correct.

22 Q. If could you look at your Exhibit JH-3.7P.

1 **A.** P, so that's Peoples, yes, I'm there.

2 **Q.** And that's the Peoples Gas Light and Coke
3 Company pass-through taxes. Okay.

4 Looking at the exhibit is it correct
5 that the pass-through lead -- the pass-through tax
6 lead for the municipal utility tax is 50.30 days;
7 is that correct?

8 **A.** That's what was computed in my lead-lag
9 study, yes.

10 MR. FEELEY: Can I approach the witness?

11 JUDGE MORAN: Yes.

12 (Whereupon, ICC Staff Cross Exhibit Hengtgen No. 21
13 was marked for identification.)

14 BY MR. FEELEY:

15 **Q.** Mr. Hengtgen, I've handed you what I'll
16 have the court reporter mark for identification as
17 ICC Staff Cross Exhibit Hengtgen No. 21 --

18 MR. FEELEY: Is that correct?

19 JUDGE HAYNES: Yes.

20 BY MR. FEELEY:

21 **Q.** Do you have that in front of you?

22 **A.** I have what you handed. It doesn't have an

1 exhibit reference on it.

2 Q. And that is a -- up in the right-hand
3 corner there's an initial WPB-8 page 45 out of 48?

4 A. Correct.

5 Q. And if you go down to the -- see where
6 there's column Gross Receipts and Municipal Utility
7 Tax?

8 A. That's correct, and you've highlighted it
9 for me.

10 Q. It's circled there in yellow.

11 And do you see the lead -- tax lead day
12 of 50.30 on that --

13 A. Yes.

14 Q. -- ICC Staff Cross Exhibit Hengtgen No. 21?

15 A. Again, I don't have the reference but, yes,
16 I can see that there.

17 Q. And that's a work paper for how the 50.30
18 was calculated; correct?

19 A. That's correct. It's out of my lead-lag
20 study.

21 Q. I'm sorry?

22 A. That's correct. It's out of my lead-lag

1 study.

2 JUDGE MORAN: This document is?

3 THE WITNESS: Yes, it is.

4 JUDGE MORAN: It is one of your work papers?

5 THE WITNESS: Yes.

6 JUDGE MORAN: Thank you, Mr. Hengtgen.

7 BY MR. FEELEY:

8 Q. Could you walk through the components of
9 how that 50.30 was calculated on that work paper
10 generally.

11 A. Okay. Just generally basically the -- I
12 have to apologize. The work paper ends in Column G
13 and then there's several other columns that do not
14 have column identifications.

15 But a service lead time is calculated of
16 15.21 days. A payment lead time -- and that is a
17 number that's computed by taking the difference
18 between the period ending and the tax due date --
19 to equal a total. And then that total for that
20 particular month is weighted on the total dollars
21 in Column G. And then a weighting is done based
22 upon those percentages to come up with the 50.3.

1 MR. FEELEY: Thank you, Mr. Hengtgen. That's
2 all I have.

3 At this time I move to admit into
4 evidence ICC Staff Cross Exhibit Hengtgen No. 21.

5 JUDGE MORAN: Are there any objections?

6 MR. ZIBART: It was 21? Is that what it was?

7 JUDGE MORAN: Yes, this work paper.

8 MR. ZIBART: No objection.

9 JUDGE MORAN: Any redirect, Counsel? Do we have
10 any --

11 MR. ZIBART: I have no redirect.

12 JUDGE MORAN: No redirect.

13 Thank you then, Mr. Hengtgen. You're
14 excused.

15 And our next witness is...

16 (Witness sworn.)

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1 SHARON MOY,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY

6 MR. RATNASWAMY:

7 Q. Could you please state your name and spell
8 your last name for the record, please.

9 A. My name is Sharon Moy. Last name spelled
10 M-o-y.

11 Q. Thank you.

12 And what is your business address,
13 please?

14 A. Business address is 130 East Randolph
15 Drive.

16 Q. And by whom are you employed?

17 A. I'm employed by Integrys Business Support,
18 LLC.

19 MR. RATNASWAMY: Can you hear?

20 Do you need anything repeated?

21 JUDGE MORAN: No.

22

1 BY MR. RATNASWAMY:

2 Q. In what positions are you employed?

3 A. My current position is rate case
4 consultant.

5 Q. And did you prepare -- we'll have to go a
6 little bit at a time here -- did you prepare direct
7 testimony on behalf of North Shore Gas Company
8 Exhibit Nos. NS Exhibit SM-1.0 and 1.1?

9 A. Yes.

10 Q. And if I were to ask you today the
11 questions that appear in that testimony, would you
12 your answers be the same subject to any revisions
13 that you have made in your rebuttal and surrebuttal
14 testimony?

15 A. Yes.

16 Q. Did you also prepare direct testimony on
17 behalf of the Peoples Gas Light and Coke Company,
18 Exhibit Nos. PGL Exhibit SM-1.0 and 1.1?

19 A. Yes.

20 Q. And if I were to ask you the questions that
21 appear in that testimony today, would your
22 questions -- would your answers be the same?

1 **A.** Yes.

2 **Q.** All right. Here's where it gets harder.

3 Did you prepare rebuttal testimony on
4 behalf of North Shore Gas Company and Peoples Gas
5 Light and Coke Company consisting of N -- exhibits
6 numbered NS-PGL Exhibit SM-2.0; 2.1N as in North
7 Shore and P as in Peoples; 2.2N and P; 2.3N and P;
8 2.4N and P; 2.5N and P; 2.6N and P; 2.7N and P;
9 2.8N and P; 2.9N and P and 2.10 P?

10 **A.** That is correct.

11 **Q.** And if I were to ask you the questions that
12 appear in that testimony, would your answers today
13 be the same?

14 **A.** Yes.

15 **Q.** And I'll get to the filing dates at the
16 end.

17 Ms. Moy, did you also prepare
18 surrebuttal testimony on behalf of North Shore Gas
19 Company and the Peoples Gas Light and Coke Company
20 numbered Peoples Gas -- NS-PGL Exhibit SM-3.0
21 revised -- rev, standing for revised, with
22 attachments 3.1 -- exhibits SM-3.1N and P; 3.2N and

1 P; 3.3N and P; 3.4N and P; 3.5 N and P; 3.6N and P;
2 3.7N and P; 3.8N and P; 3.9P and 3.10P.

3 A. This is the revised version?

4 Q. This is the revised version.

5 A. Yes.

6 Q. And if I were to ask you the questions that
7 appear in your surrebuttal testimony today, would
8 you give the same answers?

9 A. Yes.

10 MR. RATNASWAMY: All right. And, your Honors,
11 the dates for all of the direct materials are
12 February 25th. The dates for all of the rebuttal
13 materials are July 8th. And the dates for all of
14 the surrebuttal materials attachments are
15 August 17th. But the surrebuttal narrative is
16 August 25th for the filing dates.

17 With that --

18 JUDGE MORAN: Because it's revised?

19 MR. RATNASWAMY: Because it's revised, but the
20 attachments were not revised.

21 With that, I would move the admission
22 of -- can I say the things I listed?

1 JUDGE MORAN: All of the above.

2 MR. RATNASWAMY: -- all of the above.

3 JUDGE MORAN: And is there any objection to any
4 of the exhibits or attachments that have been
5 described by counsel?

6 Hearing none all of the exhibits are
7 admitted.

8 (Whereupon, Exhibit Nos. NS SM-1.0, NS SM-1.1, PGL
9 SM-1.0, PGL SM-1.1, NSPGL-2.0, NSPGL-3.0 and
10 attachments were admitted into evidence.)

11 JUDGE MORAN: And we're ready for
12 cross-examination.

13 MR. FEELEY: Actually in lieu of cross-examining
14 this witness I think we have the Companies'
15 agreement to -- the admission of -- to Staff Cross
16 exhibits.

17 The first one would be Peoples Gas Light
18 and Coke Company's response to LHW 1.07, marked for
19 identification as Staff Cross-Exhibit Moy
20 No. 22.

21

22

1 (Whereupon, Staff Cross-Exhibit Moy No. 22 was
2 marked for identification.)

3 JUDGE MORAN: Okay. And we going to need copies
4 for the court reporter.

5 MR. FEELEY: I have those.

6 JUDGE MORAN: That will be cross Moy 22.

7 And then you have another?

8 MR. FEELEY: Yes. The second one would be
9 marked for identification as Staff Cross-Exhibit
10 Moy No. 23. It's North Shore Gas Company's
11 response to LHW 1.03.

12 (Whereupon, Staff Cross-Exhibit Moy No. 23 was
13 marked for identification.)

14 JUDGE MORAN: Okay. And those are coming in by
15 stipulation basically?

16 MR. FEELEY: It's my understanding that there's
17 no objection.

18 JUDGE MORAN: It's agreeing between you and the
19 Company to have those put in.

20 MR. FEELEY: Yes.

21 MR. RATNASWAMY: Yes, your Honor.

22 JUDGE MORAN: So they're technically not

1 cross-exhibits, but I'm going to let them go this
2 time.

3 All right. And you're both jointly
4 agreeing that this will be part of the record. So
5 Staff Cross-Exhibit Moy No. 22 and Staff
6 Cross-Exhibit Moy 23 are admitted into the record.
7 (Whereupon, Staff Cross-Exhibit Moy No. 22 and
8 Staff Cross-Exhibit Moy No. 23 were admitted into
9 evidence.)

10 MR. FEELEY: Thank you.

11 JUDGE MORAN: Thank you.

12 MR. RATNASWAMY: Thank you.

13 JUDGE MORAN: And the witness is excused.

14 MR. FEELEY: At this time Staff calls its next
15 witness, Michael McNally.

16 (Witness sworn.)

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1 MICHAEL McNALLY,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY

6 MR. FEELEY:

7 **Q.** Could you please state your name for the
8 record?

9 **A.** Michael McNally.

10 **Q.** And by whom are you employed?

11 **A.** The Illinois Commerce Commission.

12 **Q.** Mr. McNally, do you have in front of you
13 what has been previously filed on e-Docket as the
14 revised direct testimony of Michael McNally ICC
15 Staff Exhibit 7.0R dated June 10, 2009 with
16 attached Schedules 7.1 through 7.8.

17 **A.** Yes.

18 **Q.** Was ICC Staff Exhibit 7.0R prepared by you
19 or under your direction, supervision and control?

20 **A.** Yes.

21 **Q.** Do you have any additions, deletions or
22 modifications to make to ICC Staff Exhibit 7.0R?

1 **A.** No, I do not.

2 **Q.** If I were to ask you today the same series
3 of questions set forth in that document, would your
4 answers be the same?

5 **A.** Yes.

6 **Q.** Mr. McNally, do you have in front of you a
7 document that's been marked for identification as
8 ICC Staff Exhibit 21.0, which has attached
9 Schedules 21.1 and -- 21.1 corrected and 21.2?

10 **A.** Yes.

11 MR. FEELEY: And, your Honors, the narrative
12 text and schedule 21.2, Mr. McNally's rebuttal and
13 that schedule attached to it were filed on August
14 4th, 2009. A corrected Schedule 21.1 was filed on
15 e-Docket on August 7th of '09.

16 BY MR. FEELEY:

17 **Q.** Mr. McNally, was your rebuttal testimony
18 prepared by you or under your direction,
19 supervision and control?

20 **A.** Yes.

21 **Q.** Do you have any additions, deletions or
22 modifications to make to that narrative testimony

1 or the attached schedules?

2 **A.** No.

3 **Q.** If I were to ask you today the same series
4 of questions set forth in those documents, would
5 your answers be the same?

6 **A.** Yes.

7 JUDGE HAYNES: I didn't get the dates -- the
8 filing dates for the direct testimony.

9 MR. FEELEY: Okay. On July 7th, '09 revised
10 direct testimony for Mr. McNally was filed. It's
11 marked for identification as 7.0R and it includes
12 Schedule 7.1 through 7.8.

13 On August 4th his rebuttal testimony --

14 JUDGE HAYNES: I got the rebuttal, just not the
15 direct. Thank you.

16 MR. FEELEY: And just to be clear, that Schedule
17 21.1 was filed on -- corrected Schedule 21.1 was
18 filed August 7th of '09.

19 JUDGE HAYNES: Thank you.

20 MR. FEELEY: And at this time Staff would move
21 to admit into evidence the revised direct testimony
22 of Michael McNally, ICC Staff Exhibit 7.0R and

1 Schedules 7.1 through 7.8; and rebuttal testimony
2 of Michael McNally, ICC Staff Exhibit 21.0;
3 corrected Schedule 21.1 and Schedule 21.2.

4 JUDGE MORAN: Are there any objection to the
5 admission of any of these exhibits?

6 Hearing none, they're all admitted.

7 (Whereupon, ICC Staff Exhibit 7.0R and Schedules
8 7.1 through 7.8; ICC Staff Exhibit 21.0; corrected
9 Schedule 21.1 and Schedule 21.2 were admitted into
10 evidence.)

11 CROSS-EXAMINATION

12 BY

13 MR. REDDICK:

14 Q. Good afternoon, Mr. McNally. My name is
15 Conrad Reddick. I represent the City of Chicago.

16 Can you see and hear me adequately?

17 A. Yes, I can.

18 Q. Thank you.

19 I don't have very many questions and I
20 think we can get through them fairly quickly.

21 Let's start with your beta that you used
22 in your CAPM analysis. Can you tell me how you

1 developed the beta estimate you used in the CAPM
2 analysis.

3 **A.** I used three different types of betas or
4 three different sources, if you will --

5 **Q.** Could you get a little closer to the
6 microphone.

7 **A.** There were three different betas in my
8 calculation and it was an average of three of them.
9 I averaged -- averaged the -- what I refer to as
10 regression beta with the Zacks beta and then I took
11 the average of that and I averaged that with the
12 Value Line beta.

13 **Q.** And one of those is the beta that you
14 calculated yourself?

15 **A.** Yes.

16 **Q.** And that was the one you referred to as --

17 **A.** The regression beta.

18 **Q.** The regression beta?

19 **A.** Yeah.

20 **Q.** Why did you choose not to use just your
21 calculated beta?

22 **A.** I believe I commented in my rebuttal

1 testimony that -- I mean, there's no necessarily
2 right calculation of beta or wrong calculation.
3 It's -- and so like we do with our various models,
4 I use multiple ones to -- and average them.

5 Q. Is there some risk associated with using a
6 single source that you were trying to avoid?

7 A. Just the possibility that any particular
8 beta may or may not be more right than the other --
9 there's -- like I said, there's no right number.
10 So if you use one that was high or low there may
11 be -- again, there's no reason to believe any of
12 those three are better or worse than the others.

13 Q. Moving to a slightly different topic, in
14 your opinion, do the estimation models
15 traditionally used before the Illinois Commerce
16 Commission when properly implemented provide valid
17 estimates of the utilities risk based cost of
18 equity?

19 A. Typically the Commission has relied on DCF
20 and CAPM analyses and I believe they do provide
21 additional -- estimates of the cost of equity.

22 Q. Do you agree that the results of those

1 models when properly implemented are reliable
2 estimates of the investor required market
3 determined cost of capital?

4 **A.** Yes, I do.

5 **Q.** When using those models, do you agree that
6 attention to the specific inputs and details of a
7 model's implementation is critical to the validity
8 of the model's results?

9 **A.** Definitely.

10 **Q.** In your opinion, should the results of
11 those models be rejected based on how ratepayers or
12 investors or bankers might react?

13 **A.** No.

14 **Q.** Turning to the securities markets. Do you
15 agree that a utility's stock price incorporates all
16 available market information about the stock?

17 **A.** The most recent stock price does, yes.

18 **Q.** And the models you used you employed to
19 estimate what investors would require to make or to
20 maintain their investment?

21 **A.** I'm sorry. Can you repeat that.

22 **Q.** Do the models that you used estimate what

1 it would take for investors to maintain or to make
2 an investment in that particular stock?

3 **A.** Yes, that's their required rate of return.

4 **Q.** Holding all else constant, if a cost of
5 equity is correctly estimated using the financial
6 modeling we've been talking about -- let me start
7 that over so it's clear.

8 Holding all else constant, if a cost of
9 equity is correctly estimated using financial
10 modeling based on the price of a utility's stock
11 will the price of the utility's stock change?

12 **A.** It could.

13 **Q.** And what might occasion that change?

14 **A.** Well, for instance, if the price is based
15 on expectations -- to use an example used
16 yesterday -- expectations of 13 percent when the
17 required rate of return is only 9 percent and the
18 Commission allowed them a 9 percent return, then
19 the price of the stock may fall.

20 **Q.** And did your answer suggest which is the
21 correct price of equity -- cost of equity?

22 **A.** The required rate of return would be.

1 **Q.** The required rate of return would be?

2 **A.** Yes.

3 **Q.** Moving to the last area that I wanted to
4 talk to you about. When you forecast growth -- the
5 expected growth for your DCF model I want to talk
6 to you about some of the inputs that were involved
7 in that process.

8 Did you use the forecast GDP growth as
9 the expected long-term earnings growth rate for the
10 utilities in your DCF model?

11 **A.** I used a forward treasury price -- a
12 treasury yield as an estimate of GDP.

13 **Q.** I'm sorry. The sound was a bit awful here.

14 **A.** I'm sorry. I used a forward treasury yield
15 as an estimate of the GDP growth.

16 **Q.** So I think that a "yes," you did use GDP
17 growth as the expected long-term earnings growth
18 rate?

19 **A.** Yes.

20 **Q.** Elsewhere in your testimony am I correct
21 that you also observed that utility earnings growth
22 can be expected to be below average?

1 **A.** Typically one would expect that, yes.

2 **Q.** Does that fact make your DCF cost of equity
3 estimate a conservative one, that is one more
4 favorable to the utility than the use of a below
5 average growth rate would have reduced?

6 **A.** To the extent that the utility's long-term
7 sustainable growth is actually below GDP, yes.

8 **Q.** And do you recall that Mr. Thomas also used
9 GDP growth in his DCF analysis?

10 **A.** Not off the top of my head. Likely is
11 true. In part, yes.

12 **Q.** And the difference between his GDP growth
13 rate and yours is what?

14 **A.** I believe his was -- was his -- 4.10, I
15 believe, mine -- 4.24 and mine was 4.10, I believe.
16 I don't know if I have that.

17 **Q.** If you don't have it readily available we
18 can move on.

19 **A.** Okay. I don't.

20 **Q.** In determining the cost of equity in this
21 case, should the Commission's determination of the
22 cost of equity for the Utilities provide a cushion

1 above the risk based return required to induce an
2 equity investment in the Utility?

3 MR. RATNASWAMY: Your Honor, I'm very reluctant
4 to do this, but I have to. An awful lot of this is
5 what you would call friendly cross. It's not
6 really cross-examination. It's getting him to give
7 consistent testimony as sort of --

8 MR. REDDICK: Consistent with what?

9 MR. RATNASWAMY: His own testimony.

10 JUDGE MORAN: It's like asking the witness, Have
11 you said this? Yes, I have. Have you said this?
12 Yes, I have. You know, it seems to -- that power
13 of redundancy. So...

14 Are you using Mr. Thomas's testimony as
15 springboard for your questions? That might be --

16 MR. REDDICK: I asked about -- I asked for a
17 comparison of Mr. Thomas's and his own GDP growth
18 rates.

19 JUDGE MORAN: Okay. Then that's a fair
20 question.

21 MR. RATNASWAMY: I think that was the second to
22 last question, but...

1 JUDGE MORAN: Let's give Mr. Conrad Reddick a
2 little more leeway here.

3 MR. REDDICK: Well, my next question went to a
4 slightly different area, which was how the results
5 of his DCF analysis and his cost of equity analysis
6 should be used. So Mr. Ratnaswamy's correct. That
7 wasn't the last question I asked.

8 JUDGE MORAN: Okay.

9 MR. REDDICK: Should I ask it again or --

10 JUDGE MORAN: Yes, please, because I think that
11 would be only fair to the witness.

12 BY MR. REDDICK:

13 Q. Should the Commission's determination of
14 the cost of equity provide a cushion above the risk
15 based return required to induce an equity
16 investment in the utility?

17 A. No.

18 MR. REDDICK: That's my last question.

19 JUDGE MORAN: Okay.

20 (Whereupon, there was a
21 change of reporters.)
22

1 MR. REDDICK: Thank you, Mr. McNally.

2 JUDGE HAYNES: Do you have redirect?

3 JUDGE MORAN: I have --

4 MR. FEELEY: Oh, sorry.

5 JUDGE MORAN: I just thought it'd be better that
6 I come down here, Mr. McNally, so that you get to
7 see me.

8 EXAMINATION

9 BY

10 JUDGE MORAN:

11 Q. Determining cost of equity, is it art or
12 science.

13 A. I guess you -- probably would be better
14 classifying it as an art.

15 Q. As an art.

16 So how do we deal with -- so you're
17 saying that even the models that are used, risk
18 premium models, CAPM, DCF analyses, they're all
19 more judgmental than objective?

20 A. Not entirely.

21 They're certainly theoretical
22 underpinnings in some that are stronger than others

1 and empirical results that may show others to be --
2 you know, some to be stronger than others.
3 They're -- there's a degree of subjectivity to it,
4 but there's also -- that's why I didn't exactly --
5 whether it's art or science is not exactly -- it's
6 not pure art; it's not pure science.

7 Q. Okay. So it's a mixture?

8 A. Yes.

9 Q. Okay. From my recall, analyses were
10 usually done with constant growth DFS analyses.

11 What caused staff to go with nonconstant
12 growth and when did that start?

13 A. I believe we started using a nonconstant
14 DCF model approximately two years ago. I can't
15 give you the exact case --

16 Q. That's okay. And what was the reason for
17 it?

18 A. Because the growth rates appear to be
19 nonsustainable over the long term.

20 Q. Okay. To the best of your knowledge, what
21 do other jurisdictions use?

22 A. I'm not certain.

1 **Q.** You have no knowledge of --

2 **A.** Well, I've seen -- you know, I've looked at

3 other jurisdiction's results and I can't

4 remember -- I can't remember if they've -- I just

5 don't remember.

6 **Q.** Okay. Do you look the other jurisdictions,

7 though, when you're -- you're at the start of the

8 case, is that something that you consider at all,

9 what other jurisdictions are doing?

10 And I don't mean in terms of the end

11 results of their computations, but to look at what

12 types of models and tools they're going to use to

13 arrive at those numbers.

14 **A.** Not typically.

15 **Q.** You don't.

16 Do you look and see what other

17 jurisdictions do in terms of adjustments to models?

18 **A.** Not typically. I mean, we may on occasion,

19 but not typically --

20 **Q.** Okay. So you just --

21 **A.** -- analyses.

22 **Q.** You just work isolated from all that?

1 **A.** Well, in -- we base our -- base our
2 recommendations on our own individual analyses.

3 JUDGE MORAN: Okay. Thank you.

4 Those are all the questions I have.

5 JUDGE HAYNES: Do you have redirect?

6 MR. FEELEY: Yeah, I do.

7 REDIRECT EXAMINATION

8 BY

9 MR. FEELEY:

10 **Q.** Mr. McNally, do you keep abreast of
11 developments in the literature in the financial
12 industry?

13 **A.** Yes, we try to as a department.

14 **Q.** I'm sorry. What was the --

15 **A.** Yes, we try to keep abreast of current
16 literature.

17 **Q.** All right. And is this the first case that
18 you've ever testified in where you've used a
19 nonconstant growth -- nonconstant growth rate?

20 **A.** This is not the first case I've used
21 nonconstant DCF.

22 **Q.** And how many other occasions have you used

1 the nonconstant?

2 **A.** A handful. Like I said, since rough- --
3 roughly in the last two years.

4 MR. FEELEY: That's all the redirect I have for
5 Mr. McNally.

6 JUDGE MORAN: Any recross on that?

7 You have a recross questions?

8 MR. REDDICK: Just one question.

9 JUDGE MORAN: Then you'll have to go.

10 MR. REDDICK: Oh, I'm sorry.

11 RE CROSS-EXAMINATION

12 BY

13 MR. REDDICK:

14 **Q.** When Mr. Feeley asked you about the
15 literature in the financial -- I'm sorry. I think
16 his phrase was financial literature, you answered
17 "yes."

18 Was your answer about financial
19 literature and banking or was it about the theory
20 of the things that go into trying to determine what
21 the cost of equity is?

22 I wasn't sure what you were referring

1 to.

2 **A.** The latter.

3 MR. REDDICK: Thank you.

4 JUDGE MORAN: Okay. There being no more

5 questions of the witness, Mr. McNally is excused,

6 and thank you, sir.

7 Sorry. There being no more questions,

8 the witness is excused. Thank you, Mr. McNally.

9 We're going to take a short break.

10 About 10, 15 minutes.

11 (Recess taken.)

12 JUDGE MORAN: Okay. Next up?

13 MR. FOSCO: Okay. Staff would call Miss Dianna

14 Hatthorn. I do not believe she was sworn.

15 JUDGE MORAN: I was just going to say...

16 (Witness sworn.)

17 JUDGE MORAN: Okay. Thank you.

18

19

20

21

22

1 DIANNA HATTHORN,
2 called as a witness herein, having been first duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY

6 MR. FOSCO:

7 Q. Please state your name for the record.

8 A. My name is Dianna Hatthorn.

9 Q. And where are you employed?

10 A. At the Illinois Commerce Commission.

11 Q. Do you have in front of you what has been
12 previously marked as ICC Staff Exhibit 1.0
13 consisting of a cover page, table of contents, 45
14 pages of questions and answers, Attached A and
15 Schedules 1.1P through 1.13P and Schedules 1.1N
16 through 1.12N?

17 A. Yes, I do.

18 Q. And is this your direct testimony in this
19 proceeding?

20 A. Yes, it is.

21 Q. And was it prepared by you or under your
22 direction and control?

1 **A.** Yes.

2 **Q.** If I were to ask you the questions set
3 forth in ICC Staff Exhibit 1.0 today, would your
4 answers be as set forth therein?

5 **A.** Yes, they would.

6 **Q.** And do you have any corrections or
7 modifications?

8 **A.** I do not.

9 MR. FOSCO: And, your Honor, for the record, all
10 of the documents I referred to were filed on
11 e-Docket on June 10, 2009.

12 BY MR. FOSCO:

13 **Q.** Miss Hatthorn, do you also have in front of
14 you what has been marked as ICC Staff Exhibit 15.0,
15 consisting of a cover page, table of contents, 36
16 pages of questions and answers, Schedules 15.1P
17 through 15.10P and Schedules 15.1N through 15.9N
18 with Schedules 15.1 through 15.6P and 15.9P,
19 corrected, and Schedules 15.1N and 15.6N being
20 corrected?

21 **A.** Yes, I do.

22 **Q.** Okay. And I'm sorry. That also includes

1 Attachments A through H, correct?

2 A. Yes.

3 Q. And was this document prepared by you or
4 under your direction and control?

5 A. Yes, it was.

6 Q. Do you have any further corrections or
7 modifications to this testimony?

8 A. No, I do not.

9 Q. And if I were to ask you the questions
10 contained in ICC Staff Exhibit 15.0, would your
11 answers be as set forth therein?

12 A. Yes, they would.

13 MR. FOSCO: Your Honor, and for the record, we
14 filed today on e-Docket a version of this
15 testimony, which was the testimony originally filed
16 on August 4th with the attachments and the
17 uncorrected schedules along with the corrected
18 schedules, which were originally filed on
19 August 11th, but we filed it as one document today
20 on e-Docket and that's the document that we would
21 be --

22 JUDGE HAYNES: All corrected with all exhibits?

1 MR. FOSCO: Correct.

2 JUDGE HAYNES: Okay. Great.

3 MR. FOSCO: And, your Honor, with that, I would

4 move for the admission of all the documents

5 previously described and tender for Miss Hatthorn

6 for cross-examination.

7 JUDGE MORAN: Okay. Are there any

8 cross-examinations to any of the exhibits noted by

9 Staff for witness Hatthorn?

10 Hearing none, all of those exhibits are

11 admitted.

12 (Whereupon, Staff

13 Exhibit Nos. 1 and 15 were

14 admitted into evidence as

15 of this date.)

16 JUDGE MORAN: And who wishes to start cross? We

17 have the Company and we have the Attorney General.

18 MS. LUSSON: I'd be happy to, your Honor.

19 Thank you.

20 JUDGE MORAN: Thank you.

21

22

1 CROSS-EXAMINATION

2 BY

3 MS. LUSSON:

4 Q. Good afternoon, Miss Hatthorn.

5 I just have a couple of questions about
6 your -- one of your recommendations to -- or I
7 should say one of your recommendations regarding
8 Rider ICR, should the Commission adopt Rider ICR?

9 A. Okay.

10 Q. And just to clarify, as I understand your
11 testimony at Page 36, for various policy reasons
12 explained by Staff Witness Kight-Garlisch and
13 Lazare, staff does not recommend that Rider ICR be
14 approved by the Commission; is that correct?

15 A. That's correct.

16 Q. Now, at the bottom of Page 36, you made a
17 recommendation that the Company adopted. It's --
18 begins at Line 866 -- affecting the cap of five
19 percent that would be included in the rider.

20 Your testimony states, The annual amount
21 to be billed under Rider ICR shall not exceed the
22 product of annual ICR base rate revenues multiplied

1 by five percent.

2 To the extent this was a language
3 change, can you explain why you felt that was
4 appropriate?

5 MR. FOSCO: Just to clarify, you're referring to
6 her direct testimony.

7 MS. LUSSON: Yes. I'm sorry.

8 MR. FOSCO: Thank you.

9 MS. LUSSON: Exhibit 1.0.

10 THE WITNESS: I recommended the change because
11 on the illustrative rates provided by the Company,
12 the way the mechanism works, calculating the
13 increase over just the -- I think it's either a
14 nine- or ten-month period -- can't remember right
15 now -- the percentage actually exceeds five percent
16 in illustrative rates, but the Company's position
17 is that it would only be five percent for the whole
18 year.

19 So I recommended this language to make
20 the tariff more clear that even though you may bill
21 more than five percent over nine months, you're not
22 going to bill more than five percent over 12

1 months.

2 Q. Okay. Thank you.

3 Now, your exhibit, Staff Exhibit 15.0,
4 Attachment G, Page 1 of 7. If you could turn to
5 that.

6 A. Okay. I'm there.

7 Q. Got that? Okay.

8 My question addresses the definition
9 there in the tariff of ICR base rate revenues, and
10 it says, Means revenues recorded in Accounts 480,
11 481, 482 and 489.

12 Do you know what those Accounts 481 --
13 480, 81, 82 and '89 represent?

14 A. 480 is residential sales; 481, commercial
15 and industrial sales; 482, other sales to public
16 authorities; and 489, revenues from transportation
17 of gas.

18 Q. Thank you.

19 And as you understand the mechanics of
20 Rider ICR and this revenue cap in particular, is it
21 correct that as the Company's rate base grows,
22 would the amount to be collected or permitted under

1 the cap also grow?

2 MR. FOSCO: Just for clarification, do you mean
3 grows as an approved Commission order in a rate
4 case?

5 MS. LUSSON: I mean grow as increase.

6 MR. FOSCO: I mean, just as reported on the
7 financial statements?

8 MS. LUSSON: I guess I'm not following your
9 question, Mr. Fosco. Can you repeat it? Maybe I
10 just misheard this.

11 MR. FOSCO: Sure.

12 I'm just trying to understand. I think
13 you asked her what happens as the rate grows and
14 I'm trying to understand if you're asking her to
15 assume it's increased in a rate case order that the
16 Company files or if it's just increased as a result
17 of financial statements submitted by the Company.

18 MS. LUSSON: Thank you. Yes.

19 BY MS. LUSSON:

20 Q. To clarify, I meant as the rate base grows
21 as a rate case is filed.

22 A. If that's the case and the rate base is

1 increased and approved by the Commission, that
2 would allow the Company to collect more revenues.
3 So then they could collect more under Rider ICR
4 because it's a percentage of the base rate
5 revenues.

6 Q. Okay.

7 A. Subject to the cap.

8 Q. So as the Company files rate cases, let's
9 assume for a hypothetical that between now and
10 2030, the Company files a given number of rate
11 cases.

12 Is it correct then that based on your
13 understanding of the cap, that the base rate
14 revenue pool would increase with every rate case
15 filed and thereby increase the amount to be
16 recovered under the cap?

17 A. Yes, unless there's some change in the
18 tariff.

19 MS. LUSSON: Okay. Thank you very much.

20 JUDGE HAYNES: And I have a question.

21 Is your answer different for if rate
22 base grows on financial statements?

1 THE WITNESS: If it hadn't been approved in a
2 rate case, then the Company's not recovering any
3 more revenues. And so then they wouldn't recover
4 any more under ICR.

5 CROSS-EXAMINATION

6 BY

7 MR. RATNASWAMY:

8 Q. Good afternoon, Miss Hatthorn.

9 If, during the cross, you experience
10 déjà vu, it's because I have asked you a lot of
11 these questions before.

12 I think -- you know, you never know. I
13 think all my questions are going to be about your
14 rebuttal testimony. If you could start with Lines
15 85 to 188, please.

16 You there?

17 A. Yes.

18 Q. I think I know what this means, but I just
19 want to make sure.

20 You cite there Miss Harden's rebuttal
21 testimony; is that right?

22 A. Yes.

1 **Q.** Okay. So when you say "staff agrees," am I
2 right that you're simply referring to Miss Harden's
3 testimony. You're not, yourself, offering an
4 opinion on the subject?

5 **A.** That's correct.

6 **Q.** Okay. Thank you.

7 On the subject of incentive
8 compensation, which is most of what I'm going to
9 ask about, is it correct you propose adjustments to
10 both Peoples Gas and North Shore's incentive
11 compensation program class?

12 **A.** That's correct.

13 **Q.** Have you, yourself, held a position leading
14 a human resources department?

15 **A.** No, I have not.

16 **Q.** Okay. Have you ever worked in a human
17 resources department?

18 **A.** No.

19 **Q.** Okay. Have you ever held a position where
20 you had responsibility for designing compensation
21 structures so as to attract and retain qualified
22 employees?

1 **A.** No, I have not.

2 **Q.** Okay. And is it correct that your proposed
3 adjustments are based on your understanding of
4 standards that have been established by the ICC for
5 the recovery of incentive compensation program
6 costs?

7 **A.** That's correct.

8 **Q.** Okay. So am I right that your testimony
9 doesn't contain any opinion from an operational
10 perspective on whether the utility's programs are
11 prudent; is that right?

12 **A.** My testimony is based on the Commission
13 prior orders and practices of what should be
14 recoverable in rates.

15 **Q.** All right. Is there anywhere in your
16 testimony where you're contending that from a
17 business perspective, just how you run the
18 companies, the programs are imprudent?

19 **A.** Nothing from a business perspective.

20 **Q.** Okay. And nothing that indicates they're
21 excessive in terms of amounts paid, again, just
22 from a business perspective?

1 **A.** That's correct.

2 **Q.** Okay. If the -- you know, I think over the
3 years, when people talk about the criteria in which
4 they're paid out, they've used -- sometimes they
5 talk about keep key performance indicators and
6 metrics and -- for what the standards are for when
7 the programs pay out.

8 Is there any one of those terms you
9 prefer?

10 **A.** No.

11 **Q.** Okay. So is it okay with you if I just
12 talk about metrics; do you understand what I mean
13 by that?

14 **A.** Sure.

15 **Q.** Okay. Thanks.

16 If the metrics of an incentive
17 compensation program benefit shareholders, does
18 that necessarily mean that they don't benefit
19 customers?

20 **A.** It's not mutually exclusive that if a
21 benefit -- if a metric -- or I'll say goals. If a
22 goal benefits shareholders, it doesn't mean it

1 doesn't benefit ratepayers as well. It depends.

2 MR. RATNASWAMY: I'm sorry. I actually didn't
3 hear one of the words.

4 Would it be all right if the answer were
5 read back?

6 JUDGE MORAN: Sure.

7 (Record read as requested.)

8 BY MR. RATNASWAMY:

9 Q. You used the word "goals," so I'll switch
10 to goals.

11 If the program goals benefit both
12 shareholders and customers, do you agree that the
13 utility should not bear 100 percent of the costs of
14 the program?

15 A. If the utility could demonstrate a
16 reasonable basis for an allocation of the sharing
17 of the costs, that would be appropriate.

18 Q. All right. Thank you.

19 If you look at Line 304 to 305, please.
20 And is it correct you refer there to expenses that
21 may not be allowable in rates?

22 A. That's correct.

1 **Q.** Okay. And is it correct the only example
2 you give are lobbying expenses?

3 **A.** That's -- yeah, that's what I have in my
4 testimony.

5 **Q.** Right. And so you actually have a footnote
6 in the next sentence that cites the section of the
7 Public Utilities Act; is that right?

8 **A.** Yes.

9 **Q.** Okay. Is that a section of the Act that
10 prohibits the recovery of -- however they're
11 defined in it -- lobbying expenses?

12 **A.** I hope so.

13 **Q.** Okay. Is there any section of the Public
14 Utilities Act that restricts the recovery of
15 incentive compensation program costs?

16 **A.** Not that I know of.

17 **Q.** If you can look just a little bit farther
18 down on the same page, Lines 312 to 314. They're
19 actually part of a question.

20 You've testified on this subject several
21 times; is that right?

22 **A.** That's correct.

1 **Q.** So is it fair to say you've looked at a
2 number of Commission orders on this subject,
3 Illinois Commerce Commission orders?

4 **A.** That's true.

5 **Q.** Okay. To your knowledge, as far as the
6 orders you're familiar with go, has the ICC
7 previously approved measures related to cost
8 control or cost reductions as incentive
9 compensation program goals?

10 **A.** I think ComEd has one like that. It's the
11 only one that pops to mind --

12 **Q.** Okay.

13 **A.** -- recently.

14 **Q.** Okay. Were you -- were you the witness on
15 this subject in the last Peoples and North Shore
16 case?

17 **A.** No.

18 **Q.** Okay. That would explain. Okay.

19 Is it right -- and, again, I'm going to
20 refer to a line that I think is still in the
21 question, actually.

22 Line 316 refers to net income -- again,

1 it's in the question. Net income as a hybrid of
2 revenues and costs. Do you see that?

3 A. Yes.

4 Q. Would you agree -- sorry?

5 A. I'm just clearing my throat.

6 Q. Okay. Would you, although net income can
7 be defined -- the specifics of it can be defined
8 different ways. That, in general, it's -- it's a
9 calculation that is a revenue amount minus a cost
10 amount?

11 A. I would agree with that general definition.

12 Q. So in the answer to that question on Lines
13 324 to 329 -- it's not the whole answer. It was
14 part the answer -- you refer to the fact that the
15 particular net income goals as you understand them
16 of the programs in this case are determined on a
17 consolidated basis, meaning they involve a number
18 of Integris (phonetic) companies, including but not
19 limited to Peoples and North Shore; is that right?

20 A. That's correct.

21 Q. Okay. Now, if -- if the goals had been
22 limited -- it's sort of been defined the same way,

1 but had been limited to Peoples Gas and
2 North Shore, would it be fair to say that that part
3 of your criticism would go away?

4 **A.** It wouldn't go away because there's still
5 been no showing that the goals are related to any
6 actual cost reductions for Peoples Gas or
7 North Shore.

8 **Q.** Okay. So -- so part of it is -- the
9 criticism is what you just said, but part of the
10 criticism is includes data related to other
11 companies in the corporate family, right?

12 **A.** Yes, it's both.

13 **Q.** It's actually -- if you go down to Lines
14 339 to 346, please. And I think this may follow
15 from something you said earlier.

16 Is it correct that you -- you have no
17 opinion on whether from an operational perspective,
18 it's reasonable to base a portion of a gas
19 utility's employee's compensation on a reduction in
20 system leaks?

21 **A.** That's correct.

22 **Q.** Okay. All right. Now, I'd like to ask you

1 about a number of hypotheticals. Some of this will
2 sound familiar. Try to make up some new ones, too.

3 Let's assume -- and I'll just pick one
4 utility. So let's assume it's Peoples Gas. Let's
5 assume there's an employee who supervises the
6 people who get sent out when a customer says they
7 smell gas, okay? So it's the first part of the
8 hypothetical.

9 And -- but I'd like you also to assume
10 that the person is qualified for that job and they
11 actually do their job. They show up and they do
12 their job.

13 Are you with me so far?

14 **A.** Right. So it's hypothetical.

15 **Q.** Right. It's hypothetical.

16 Let's assume they're paid --
17 hypothetical employee is paid \$50,000 of base
18 salary per year and has no other employee benefits.
19 Okay?

20 Is that all right?

21 **A.** Okay.

22 **Q.** Okay. And let's assume that that is the

1 going salary in the labor market for this kind of
2 job in this geographic area.

3 Is that okay?

4 **A.** Okay.

5 **Q.** Okay. So with those assumptions, is there
6 anything in the hypothetical that would lead you to
7 conclude that the employee's salary, their base
8 salary of \$50,000, should not be recovered through
9 rates?

10 **A.** No, I haven't heard anything like that.

11 **Q.** Okay. Now, let's suppose that the
12 compensation is changed. The total will still be
13 \$50,000, but 45,000 is base salary and 5,000 is an
14 expense account, but they don't have to actually
15 show their expenses. They just get the 5,000,
16 assuming they ask for it. So it still adds up to
17 50,000.

18 Is there anything in that modified
19 hypothetical that would lead you to conclude that
20 any part of their compensation should not be
21 allowed to be recovered through rates?

22 **A.** If I were analyzing that, I would

1 investigate how reasonable that an employee doesn't
2 have to show any documentation for the 5,000 of
3 expenses.

4 And if -- if the Company couldn't show
5 that there are any kind of controls about that
6 expense, I would question that if they couldn't
7 firm up that procedure.

8 **Q.** All right. But if it was all base salary,
9 they would also get that same \$5,000, no questions
10 asked, right?

11 **A.** No, that was an assumption that the person
12 was doing their job well or just doing their --
13 it's an assumption of base salary is the agreement
14 that the person is going to get 50,000.

15 The other agreement was they're going to
16 get 45,000 for their job and 5,000 just because.
17 They turned in nothing and I would question why
18 they get the extra 5,000 just for nothing unless
19 that was valid.

20 **Q.** Okay. Suppose -- I guess I won't use a
21 real name, so I'll make up a name.

22 Suppose a guy named Larry Reinsdorf

1 bought the utility and he changed the base salary
2 to \$45,000, and there was incentive -- I guess I
3 don't know if you'd call it an incentive
4 compensation, honestly, but they get another \$5,000
5 if the White Sox win the World Series and that's
6 all that happens to happen. And the White Sox
7 actually do the win the World Series.

8 Say they win it every year. Would there
9 be any reason under your view to disallow -- to not
10 allow any of the 50,000 to be recovered through
11 rates?

12 **A.** Yes.

13 **Q.** Okay. Why?

14 **A.** Because inflating ratepayer's costs because
15 the White Sox won \$5,000 -- won the World Series is
16 not reasonable.

17 **Q.** Okay. Now, let's back up a second because
18 you used the word "inflated."

19 It's still part of the hypothetical that
20 in the labor market, the going amount of
21 compensation for this employees is \$50,000. Do you
22 still consider it to be inflated if that gets

1 changed; the way it gets paid is \$45,000 of base
2 salary and \$5,000 for the White Sox winning the
3 World Series?

4 **A.** I didn't understand that was part of your
5 assumption.

6 **Q.** Okay.

7 **A.** But if that is part of the assumption, then
8 I would expect the Company to be able to
9 demonstrate that that is, in fact, the case, that
10 it's -- that \$50,000 is the market rate.

11 And I still don't think that the
12 reasonableness should just solely be based on the
13 number, if the -- if the utility's practices are
14 based on the White Sox winning the World Series.

15 **Q.** Okay. Would it make a difference if I
16 picked a team closer to Springfield?

17 **A.** No.

18 **Q.** Okay. Suppose now that it's 45,000 base
19 salary and it's \$5,000 if the utility's stock
20 increases by at least a dollar during the year,
21 again, with the hypothetical including the 50,000
22 as total compensation is sort of the market, if I

1 can call it that.

2 Do you believe that any of the \$50,000
3 should not be recovered through rates?

4 **A.** My opinion on that is based on the prior
5 Commission orders that has consistently determined
6 that stock-based incentives primarily benefit
7 shareholders and that because of that, that
8 shareholder should have to pay that portion of that
9 incentive compensation.

10 **Q.** Okay. So if it was any other measure tied
11 to -- if I can call it the happiness of the
12 shareholders. The stock goes up; there's more
13 earnings per share. They just do focus groups and
14 ask the shareholder whether they're happy, all of
15 those kinds of things.

16 Would it be fair to say that you
17 believe, under the ICC standards in that case, even
18 if 50,000 is -- the total is the market rate, that
19 the amounts tied to those goals should not be
20 allowed to be recovered in rates?

21 **A.** If that's what those goals are based on,
22 yes.

1 Q. Okay. Now, suppose -- this is the last
2 kind of hypothetical. There might be a couple
3 permutations.

4 Suppose it's a net income goal. And so
5 it's 45,000 base salary and it's \$5,000 tied to a
6 net income goal. We talked earlier about a general
7 definition of net income goals. Let's assume, just
8 going back to that general definition.

9 If we were to change the definition to
10 calculate net income differently, it would still be
11 a net income goal, but we would weight revenues
12 more or less or costs more or less, would that
13 affect your view of whether the amounts tied to the
14 goal should be allowed to be recovered through
15 rates?

16 MR. FOSCO: Just so I'm clear, so you're saying
17 if you changed which revenues are included and
18 which costs?

19 MR. RATNASWAMY: Right.

20 THE WITNESS: I would have to know more
21 specifics. I've never heard of any kind of goal
22 like that.

1 BY MR. RATNASWAMY:

2 Q. Okay. Okay. Let's assume the goal isn't
3 changed, but how it is met is changed. And what I
4 mean by that is, let's say in any given year, the
5 way they met the net income goal was revenues were
6 completely flat, but costs went down.

7 Would it still be your view that the
8 monies tied to the net income goal should not be
9 allowed to be recovered through rates?

10 A. If the program is triggered by solely the
11 goal of net income rather than telling employees
12 it's their goal to meet certain cost reductions,
13 then I would still have the same opinion if the
14 only metric being measured is net income.

15 Q. Okay. If I can switch to the subject -- I
16 forgot what Mr. Fosco called it, but the subject of
17 adjustments related to the Liberty audit.

18 And I'm not sure how -- were you here
19 earlier in the day when Mr. Doerk was testifying?

20 A. Yes.

21 Q. Okay. It was a part of your adjustment --
22 I guess this is a question about your direct -- in

1 direct tied to amounts paid to Huron Consulting?

2 **A.** Yes, that was part of my direct.

3 **Q.** Okay. And is it right that the Company --
4 is it correct that the Company removed that in a
5 rebuttal and that's no longer part of your
6 adjustment, therefore?

7 **A.** That's correct.

8 **Q.** Okay. Under the order in -- I want to say
9 it's Docket 06-0311. By that, I do mean the one
10 related to the Liberty matter.

11 Is it your understanding of that order
12 that the Company is required to track costs that
13 are not incremental?

14 **A.** The Company was required to track costs as
15 directed in the stipulation and the order, and
16 those were for costs or expenses solely
17 attributable to Peoples Gas not performing
18 corrosion inspections in a timely manner and then
19 it has a specifying paragraph, and also incremental
20 cost caused solely by violation of the Illinois Gas
21 Pipeline Safety Act or its implementing
22 regulations.

1 MR. RATNASWAMY: Excuse me.

2 (Pause.)

3 BY MR. RATNASWAMY:

4 Q. Do you have a copy of the data request you
5 answered? A copies of them, rather.

6 A. Yes.

7 Q. Unfortunately, the way these were collated,
8 it has all of your answers to the second set of
9 data requests. The only one I want to ask you
10 about at this point is 2.07.

11 Do you have that one?

12 A. Yes, I have it.

13 MR. RATNASWAMY: So I'm sorry. I don't know
14 what number we're up to.

15 JUDGE MORAN: This would be No. 24.

16 MR. FOSCO: Are we just marking --

17 JUDGE HAYNES: We need three copies for the
18 court reporter.

19 MR. RATNASWAMY: Okay.

20 JUDGE MORAN: Is this all one exhibit or are you
21 just pulling out one?

22 MR. RATNASWAMY: Just the one page. It's

1 unfortunately the way it was collated.

2 JUDGE MORAN: So you want to just pull that one
3 page and mark that for identification.

4 MR. RATNASWAMY: Right.

5 (Whereupon, NS/PGL Cross
6 Exhibit No. 24 was
7 marked for identification
8 as of this date.)

9 BY MR. RATNASWAMY:

10 Q. Do you recognize -- I'm sorry. What was
11 the number?

12 JUDGE MORAN: 24.

13 BY MR. RATNASWAMY:

14 Q. 24.

15 Do you recognize -- so it's North Shore
16 and Peoples Gas Hatthorn Cross Exhibit 24, also
17 known as the response to data request PGL
18 North Shore 2.07?

19 A. Yes, I do.

20 Q. Okay. And I prefer not to take the time to
21 read the whole question, if that's all right.

22 Could I just ask, is that a question you

1 were asked and is that the answer that you gave?

2 A. Yes, it is.

3 Q. Okay. And did you intend the answer to be
4 correct?

5 A. Yes.

6 Q. Okay. All right. All right. So what --
7 do you know when the final Liberty report was
8 issued?

9 A. It's dated August 14th, 2008.

10 Q. Do you know if it was issued on or about
11 that date?

12 A. I don't know for certain. I just have the
13 cover sheet of the date.

14 Q. Okay. Do have any reason to think that's
15 not the correct date for when it came out?

16 A. No.

17 Q. Okay. So there was discussion earlier and
18 also, I believe, in your testimony about the role
19 of a 2008 -- sometimes referred to as the six and
20 six forecast being part of how the 2010 test year
21 forecast was developed.

22 Does that sound familiar?

1 **A.** Yes, it does.

2 **Q.** Okay. And the six and six is referred
3 to -- is referring to six months of actuals,
4 January through June, and six months of forecast,
5 July through December for 2008?

6 **A.** That's correct.

7 **Q.** Okay. And so assuming the date of the
8 report is correct -- hope you don't mind me asking.
9 So if it came out on August 14th, it would be after
10 the period that incorporated actuals into the test
11 year forecast?

12 MR. FOSCO: What would be after the period?

13 MR. RATNASWAMY: August 14.

14 MR. FOSCO: That date; is that's all you're
15 asking?

16 MR. RATNASWAMY: Yeah, when the report came out.

17 THE WITNESS: Are you asking me if August is
18 after June?

19 BY MR. RATNASWAMY:

20 **Q.** Yeah. I kind of hate to do it, but...

21 **A.** Yes, it is.

22 **Q.** Okay. So in order for costs that involved

1 a reaction, if I can call it that, to the Liberty
2 report to have been included in the 2008 numbers,
3 they would have to have been in the forecast,
4 right?

5 MR. FOSCO: I'm going to object to the question.
6 We already have testimony from Mr. Doerk that they
7 started responding during the audit.

8 BY MR. RATNASWAMY:

9 Q. Okay. Let me ask it this way:

10 A response to the final report then.

11 A. I don't think I understand the question.

12 Q. Okay. So if the final report came out in
13 August, then the actuals for January through
14 June -- I hate asking these kind of questions, but
15 would not include anything they did in response to
16 the final report, would it?

17 A. Well, the test year also includes six
18 months of forecast.

19 Q. Right.

20 A. So that part could include forecast costs
21 for doing corrective actions to address the reports
22 since the report wasn't issued until August and the

1 test year goes through the whole year.

2 Q. So did you in your -- I'm just asking about
3 your testimony; not Mr. Burk's or anyone else's.

4 Did you in your testimony present any
5 evidence that the forecasts for the last half, the
6 last six months of 2008, included amounts
7 forecasted -- oh, my gosh. This is going to be a
8 lot of words -- forecasted it to be incurred due to
9 not timely performing corrosion inspections or due
10 to violations of the Pipeline Gas Safety Act or its
11 implementing regulations discovered by Liberty?

12 A. Can you please repeat the beginning of the
13 question?

14 JUDGE MORAN: Do you want it read back.

15 MR. RATNASWAMY: Yeah. I think I got it right,
16 actually. Surprised myself.

17 JUDGE MORAN: Okay.

18 (Record read as requested.)

19 THE WITNESS: Okay. That's good enough. I
20 understand now.

21 My testimony had to present an estimate
22 of what I thought those forecasted costs for that

1 huge period of description you just gave.

2 Q. Hm-hmm.

3 A. Because the actual tracking system that
4 would have been required to present the costs was
5 not available by the Company.

6 Q. All right. But assuming your data request
7 answer to 2.07 is correct, no tracking mechanism is
8 required for nonincremental costs, is it?

9 A. Right.

10 MR. RATNASWAMY: Okay. No further questions.

11 Thank you.

12 I would move the admission of
13 North Shore and Peoples Gas Hawthorne Cross
14 Exhibit 24.

15 JUDGE MORAN: Are there any objections?

16 MR. FOSCO: No objection.

17 JUDGE MORAN: No objections.

18 Cross Exhibit Hatthorn 24 is admitted.

19 (Whereupon, NS/PGL Hatthorn Cross
20 Exhibit No. 24 was
21 admitted into evidence as
22 of this date.)

1 MR. FOSCO: Can we just have one second?

2 (Pause.)

3 MR. FOSCO: Okay. We have a few redirect now.

4 JUDGE MORAN: Please proceed.

5 REDIRECT EXAMINATION

6 BY

7 MR. FOSCO:

8 Q. Do you recall Mr. Ratnaswamy asked you some
9 questions regarding hypotheticals regarding
10 employees earning a certain amount of base amount
11 and there being a certain market value in the
12 market?

13 A. I do.

14 Q. To your knowledge, does Staff or the
15 Commission review the Company's filings to make
16 sure that the Companies are not paying any
17 employees less than the market value?

18 A. That would be beyond the scope of what we
19 normally review.

20 Q. Okay. And in assessing labor costs, does
21 Staff look at what the Company is paying or has
22 agreed to pay its employees or what it could pay

1 them?

2 **A.** We -- if there's a union involved, we look
3 at the contract and what that's going to provide
4 for the future. Otherwise, we look at the
5 historical payments to the employees.

6 **Q.** Okay. Could you refer to what's now been
7 admitted as, I guess it's -- is it Company's or
8 PG- -- what did we call it again? The PGL/North
9 Shore?

10 **MR. RATNASWAMY:** I don't know if I was
11 consistent with practice up to this point, if there
12 was any, but I said North Shore and Peoples Gas.

13 **BY MR. FOSCO:**

14 **Q.** Okay. If you could look at North Shore and
15 Peoples Gas Cross Exhibit Hatthorn 24.

16 **A.** Okay.

17 **Q.** You -- as I -- you were asked a question if
18 you believe that the ICC required Peoples Gas to
19 operate an internal tracking mechanism to account
20 for such incremental costs and you answered "no,"
21 correct?

22 **A.** That's correct.

1 Q. Can you explain what you meant by that?

2 JUDGE HAYNES: Mr. Fosco, can you speak into
3 the --

4 MR. FOSCO: I'm sorry.

5 BY MR. FOSCO:

6 Q. Can you explain what you meant by your
7 answer there?

8 A. What I mean is that if the Company were to
9 have performed some kind of work in one time
10 period, but they didn't and then they had to make
11 it up in another period. The time when they make
12 it up is incremental to their normal work they do.

13 So it almost always -- and so it is an
14 incremental cost if they did the work in one period
15 and not another, and that's why I believe
16 nonincremental costs for this issue is irrelevant.

17 MR. FOSCO: Okay. No further redirect.

18 JUDGE MORAN: Any recross?

19 MR. RATNASWAMY: A little bit, your Honor.

20

21

22

1 RECROSS-EXAMINATION

2 BY

3 MR. RATNASWAMY:

4 Q. Did you -- I mean, you referred to -- did
5 you read Mr. Hoover's rebuttal testimony?

6 A. Yes, I did.

7 Q. Okay. And do you recall, as you sit here
8 right now without looking, whether he testified
9 about whether the total cash compensation costs
10 paid by the utilities to their employees were at
11 the market median?

12 A. That sounds like his testimony.

13 Q. Okay. Did you refute that in your
14 rebuttal?

15 A. No.

16 Q. Okay. Okay. Just this is another
17 hypothetical that actually could be on both
18 subjects, but I'm thinking of Liberty.

19 Let's say that a utility has ten people
20 who perform corrosion inspections and they're
21 supposed to do a thousand a year, and they do 900
22 in one year and 1100 in the next year.

1 Are you with me so far?

2 **A.** Yes.

3 **Q.** Okay. And they got paid the same amounts
4 in both years as an additional assumption. Are you
5 with me -- are you with me?

6 **A.** Yes.

7 **Q.** Okay. Are there any incremental costs due
8 to the fact that they did 100 less than they were
9 supposed to in the first year and did 100 more in
10 the second year?

11 MR. FOSCO: My only question for you is when you
12 said "require," can you explain how required?

13 MR. RATNASWAMY: Oh, I was thinking their boss
14 told them.

15 MR. FOSCO: Okay. Not some statute saying
16 they're --

17 MR. RATNASWAMY: Let's stick with their boss for
18 the moment.

19 MR. FOSCO: Thank you.

20 MR. RATNASWAMY: Now, you doubled the number of
21 hypothetical.

22 THE WITNESS: If -- if the -- if we're talking

1 about for setting rates for a regulated utility and
2 if no amount of the wages is based on over time or
3 incentive comp, anything like that, if it's just
4 flat X amount this year, X amount the next year and
5 no rate increase is being asked, then it's the same
6 every year.

7 BY MR. RATNASWAMY:

8 Q. Okay. And I don't -- I don't to get into
9 the real statute.

10 Let's say there was a hypothetical
11 statute, too, which said -- I don't know why, but
12 for some reason, that they needed to perform a
13 thousand per year.

14 Would that change your answer?

15 A. It depends if -- if by not performing at
16 the statutory required level, what was impact on
17 the Company the next year when they performed the
18 1100; were there other costs that the Company
19 incurred by not doing the thousand that they were
20 supposed to.

21 Q. Okay. And in your addition to the
22 hypothetical, if the answer to that question is,

1 yes, then there are incremental costs; and if the
2 answer is no, then there are not incremental costs?

3 **A.** If they're -- if it's yes, there are
4 incremental costs. If there's not, they should be
5 able to demonstrate that.

6 **Q.** And if they do demonstrate that?

7 **A.** Then there wouldn't be any.

8 MR. RATNASWAMY: Okay. No further questions.

9 JUDGE MORAN: Okay. Thank you, Miss Hatthorn,
10 and you're excused.

11

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13 (Change of reporters.)

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1 JUDGE MORAN: And I believe we have one more
2 witness for today.

3 MR. RATNASWAMY: Can we go off the record for a
4 moment, your Honor.

5 (Discussion off the record.)

6 MR. FEELEY: At this time Staff would call its
7 next witness, Mike Ostrander.

8 (Witness sworn.)

9 JUDGE MORAN: Thank, Mr. Feeley, you can proceed.

10 MIKE OSTRANDER,
11 called as a witness herein, having been first duly
12 sworn, was examined and testified as follows:

13 DIRECT EXAMINATION

14 BY

15 MR. FEELEY:

16 Q. Can you please state your name for the
17 record?

18 A. Mike Ostrander.

19 Q. And by whom are you employed?

20 A. The Illinois Commerce Commission.

21 Q. Mr. Ostrander, do you have in front of you
22 a document that's been marked for identification as

1 ICC Staff -- ICC Staff Exhibit 3.0, the Direct
2 Testimony of Mike Ostrander, consists of a cover
3 page, 16 pages of text and attached schedules 3.1 N
4 and P through 3.5 N and P?

5 A. Yes.

6 Q. And was that direct testimony prepared by
7 you or under your direction, supervision or
8 control?

9 A. Yes.

10 Q. Do you have any additions, deletions or
11 modifications to make to Staff Exhibit 3.0?

12 A. No.

13 Q. If I were to ask you today the same series
14 of questions set forth in that document would your
15 answers be the same?

16 A. Yes.

17 Q. Mr. Ostrander, do you have in front of you
18 another document which has been marked for
19 identification as ICC Staff Exhibit 17.0, the
20 Rebuttal Testimony of Mike Ostrander, consists of a
21 cover page, 15 pages of text and attached schedules
22 17.1 P corrected, 17.1 N corrected, 17.2 N and P

1 and Attachments A through J?

2 A. Correct.

3 Q. Was ICC Staff Exhibit 17.0 and those
4 attached schedules and attachments prepared by you
5 or under your direction, supervision and control?

6 A. Yes.

7 Q. Do you have any additions, deletions or
8 modifications to make to ICC Staff Exhibit 17.0 --
9 I'm sorry and, did your attachments -- were the
10 Attachments A through P, rather than A through J?

11 A. Yes.

12 JUDGE HAYNES: A through what?

13 MR. FEELEY: A through P. And I'll go through it
14 for the ALJ's. Mr. Ostrander's direct testimony
15 3.0 and Schedules 3.1 N and P through 3.5 N and P
16 those are filed on e-docket on June 10th of this
17 year. And 17.0 and Schedules 17.2 N and P and
18 Attachments A through P, those were filed on
19 e-docket on August 4th. On August 11th, corrected
20 schedules 17.1 P and N were filed, on August 11th.

21 JUDGE HAYNES: August 11th?

22 MR. FEELEY: Yes, for the corrected 17.1 P and N.

1 BY MR. FEELEY:

2 Q. Do you intend for those documents to be
3 your prepared direct and rebuttal testimony in this
4 docket?

5 A. Yes.

6 MR. FEELEY: At this time I would move to admit
7 those documents into evidence.

8 JUDGE MORAN: Okay, are there any objections?

9 MR. ZIEBART: No, your Honors.

10 JUDGE MORAN: Hearing none, all the exhibits are
11 admitted.

12 (Whereupon, ICC Staff
13 Exhibits Nos. 4.0 and 17.0 were
14 admitted into evidence as
15 of this date having been
16 previously filed on e-docket.)

17 JUDGE MORAN: And who wishes to start cross? We
18 only have one party.

19 MR. ZIEBART: I have some cross, your Honor.

20

21

22

1 CROSS EXAMINATION

2 BY

3 MR. ZIEBART:

4 Q. Good afternoon, Mr. Ostrander. I don't
5 think I've had the pleasure of meeting you, I'm
6 Chris Ziebart and I'm representing the utilities in
7 this docket.

8 A. Good afternoon.

9 Q. And all my questions are going to relate to
10 cash working capital and specifically how the pass
11 through taxes are accounted for in the lead/lag
12 study?

13 Q. Now, first, you agree that it's appropriate
14 to account for pass through taxes in the study,
15 because there are timing differences between the
16 collection and payment of taxes, right?

17 A. Yes.

18 Q. And the timing difference between when a
19 utility collects the money and when it pays the
20 money to the government makes it appropriate to
21 have a revenue lead, in your opinion, right?

22 A. No.

1 Q. I have that wrong? I'm sorry, a lag, right?

2 MR. FEELEY: Could you restate the question?

3 BY MR. ZIEBART:

4 Q. The timing difference between when a
5 utility collects the money and when it pays the
6 money to the government that makes it appropriate
7 to have a lead, does it not?

8 A. Yes.

9 Q. And your area of disagreement with
10 Mr. Hengtgen and his study is that you proposed to
11 use zero lag days for pass through taxes for both
12 utilities; is that right?

13 A. Yes.

14 Q. Now, the largest of these pass through
15 taxes, in total dollars remitted by Peoples Gas, to
16 take Peoples Gas, is the gross receipts municipal
17 utility tax; is that right?

18 A. That's correct.

19 Q. And if we looked at your analysis of the
20 pass through taxes, the ones that have the biggest
21 effect on cash working capital, both relate to
22 taxes paid to the City of Chicago; is that right?

1 **A.** Limiting to pass through taxes, yes.

2 **Q.** And those two taxes alone account for
3 23.6 million of your total \$25.6 million
4 adjustment; is that right?

5 **A.** That's correct.

6 **Q.** For the City of Chicago taxes, Mr. Hengtgen
7 proposes to use, for Peoples Gas, 50.22 lag days
8 and 50.3 lead days; is that right?

9 **A.** Yes, I see that in his Exhibit JH 3.7 P.

10 **Q.** And because Mr. Hengtgen's leads and lags
11 for the City of Chicago taxes are close to the
12 same, the effect in his study is that the leads and
13 lags pretty much cancel each other out, would you
14 agree?

15 **A.** Mathematically I agree they cancel out.

16 **Q.** And you would agree, then, that
17 Mr. Hengtgen's study, which has both leads and lags
18 for pass through taxes, results in a very small
19 effect on rate base?

20 **A.** Again, mathematically, yes.

21 **Q.** And just looking at the City of Chicago
22 taxes, he finds that it's a net reduction in rate

1 base of about \$40,000?

2 A. Yes.

3 Q. You use the same lead days as computed by
4 Mr. Hengtgen, right?

5 A. I do.

6 Q. And that's about 50.3 days?

7 A. Yes.

8 Q. Using the 50.3 days lead days, for the two
9 City of Chicago taxes, but zero lag days, your
10 calculation results in a reduction to rate base of
11 23,661,000; is that right?

12 A. Yes.

13 Q. In your proposed adjustment, using zero
14 revenue lag days and lead days computed by
15 Mr. Hengtgen of 50.3 lead days, that is, in effect,
16 saying Peoples Gas collects these two taxes from
17 its customers and remits them to the City, on
18 average, 50.3 days later. Would you agree with
19 that?

20 A. Could you say that again for me, please?

21 Q. Right. In your proposal using zero revenue
22 lag days and the lead days computed by Mr. Hengtgen

1 of 50.3 days, in fact, that is saying that Peoples
2 Gas collect these two taxes from its customers and
3 remits them to the City, on average, 50.3 days
4 later?

5 A. Yes.

6 Q. And the situation is similar for North
7 Shore Gas, isn't it, your proposed downward effect
8 on cash working capital for the gross receipts
9 municipal utility tax is far and away the largest
10 dollar amount of your proposed pass through tax
11 adjustments?

12 A. Yes.

13 Q. And again, the reason that you show a much
14 larger negative number than Mr. Hengtgen does, is
15 that he uses 40.84 lag days and you use zero lag
16 days?

17 A. Yes.

18 Q. And both of you use the number for lead
19 days that Mr. Hengtgen calculated, which is 74.82,
20 right?

21 A. Yes. For North Shore.

22 Q. So then, again, in your proposal using zero

1 revenue lag days and the lead days computed by
2 Mr. Hengtgen of 74.82 days that is, in effect,
3 saying that North Shore Gas collects gross receipts
4 municipal utility taxes from its customers and
5 remits them to the municipalities, on average,
6 74.82 days later?

7 **A.** Yes.

8 **Q.** In both your direct and rebuttal testimony,
9 you mentioned that in Nicor Gas' most recent rate
10 case the Commission approved zero lag days for pass
11 through taxes?

12 **A.** Correct.

13 **Q.** And you didn't mention in your testimony
14 the Commission's treatment of pass through taxes in
15 Peoples Gas or North Shore Gas' most recent rate
16 cases, did you?

17 **A.** That's correct.

18 **Q.** In Peoples Gas' and North Shore Gas' rate
19 cases just 2 years ago the Commission did use both
20 leads and lags for pass through taxes; isn't that
21 right?

22 **A.** That is correct.

1 **Q.** And that's consistent with what the
2 utilities proposed here; is that right?

3 **A.** Yes, it is.

4 MR. ZIEBART: I have no further questions for
5 Mr. Ostrander.

6 JUDGE MORAN: Any redirect?

7 MR. FEELEY: Can I have a moment?

8 JUDGE MORAN: Sure.

9 (Break taken.)

10 MR. FEELEY: We have no redirect.

11 JUDGE MORAN: No redirect. Okay, then, no one
12 else is examining this witness, so Mr. Ostrander,
13 thank you so much and you are excused.

14 (Witness excused.)

15 JUDGE HAYNES: So did you want to do Ms. Pearce's
16 testimony? Do you want to put her in? Is she
17 around?

18 MR. FEELEY: I think she might have left because
19 I told her --

20 MS. BONITA PEARCE: John, I'm here if need be.

21 JUDGE MORAN: That will save you the affidavit
22 and you have the cross exhibits here.

1 MR. RATNASWAMY: Yes, were they brought up there?

2 JUDGE HAYNES: We don't have them.

3 MR. FEELEY: At this time the staff would call
4 Bonita A. Pearce to testify.

5 (Witness sworn.)

6 BONITA PEARCE,
7 called as a witness herein, having been first duly
8 sworn, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY

11 MR. FEELEY:

12 Q. Would you please state your name for the
13 record?

14 A. Bonita A. Pearce.

15 Q. And by whom are you employed?

16 A. The Illinois Commerce Commission.

17 Q. Ms. Pearce, do you have in front of you a
18 document that's been marked for identification as
19 ICC Staff Exhibit 2.0, Direct Testimony of Bonita
20 A. Pearce, it consists of a cover page, 8 pages of
21 text and Schedules 2.1 P, 2.2 N and 2.2 P and 2.3 N
22 and 2.3 P?

1 **A.** Yes, I do.

2 **Q.** Was that document prepared by you or under
3 your direction, supervision and control?

4 **A.** Yes.

5 **Q.** Do you have any additions, deletions or
6 modifications to make to ICC Staff Exhibit 2.0?

7 **A.** No, I don't.

8 **Q.** If I were today to ask you the same series
9 of questions set forth in ICC Staff Exhibit 2.0,
10 would your answers be the same?

11 **A.** Yes.

12 **Q.** Ms. Pearce, do you have in front of you a
13 document that's been marked for identification as
14 ICC Staff Exhibit 16.0, Rebuttal Testimony of
15 Bonita A. Pearce, Docket Nos. 09-0166 and 167
16 consist of a coverage page, 22 pages of text,
17 attached Schedules 16.1 P, 16.2 N, 16.2 P and
18 Attachments A and B?

19 **A.** Yes, I do.

20 **Q.** Is ICC Staff Exhibit 16.0 and attached
21 schedules and attachments prepared by you or under
22 your direction, supervision or control?

1 **A.** Yes.

2 **Q.** Do you have any additions, deletions or
3 modifications to make to Staff Exhibit 16.0?

4 **A.** No.

5 **Q.** If I were to ask you today the same series
6 of questions set forth in that document, would your
7 answers be the same?

8 **A.** Yes, they would.

9 MR. FEELEY: Judges, just for your records, Staff
10 Exhibit 2.0 and all those attached schedules were
11 filed on e-docket on June 10th and rebuttal
12 testimony, Exhibit 16.0 and the attached schedules
13 and attachments those were filed on August 4th.

14 JUDGE MORAN: Thank you.

15 MR. FEELEY: At this time staff would move to
16 admit into evidence ICC Staff Exhibit 2.0 and the
17 attached schedules and ICC Staff Exhibit 16.0 and
18 the attached schedules and Attachments A and B.

19 JUDGE MORAN: And are there any objections to the
20 admission of this evidence into the record?

21 MR. RATNASWAMY: No.

22 JUDGE MORAN: Hearing none, all the exhibits

1 described by Staff counsel are admitted.

2 (Whereupon, ICC Staff
3 Exhibits Nos. 2.0 and 16.0 were
4 admitted into evidence as
5 of this date having been
6 previously filed on e-docket.)

7 MR. FEELEY: Ms. Pearce is available for cross
8 examination.

9 JUDGE MORAN: And in lieu of cross, I believe
10 there is a stipulation.

11 MR. FEELEY: Yes.

12 MR. RATNASWAMY: So, I'm sorry, Ms. Pearce, I'm
13 off camera, but imagine I look just like
14 Mr. Feeley.

15 In lieu of cross examination, we
16 would -- North Shore and Peoples Gas would like to
17 offer as North Shore, Peoples Gas Cross Exhibit 25,
18 which consists of Ms. Pearce's answers to Peoples
19 Gas and North Shore Data Request 14.01 and 14.02,
20 the latter of which has some attached schedules.

21 JUDGE MORAN: And this exhibit covers 8 pages,
22 just want to be sure on that. They are not

1 numbered and we might want to do that.

2 MR. RATNASWAMY: Yes, 8 pages, your Honor.

3 MR. FEELEY: We have no objection to that exhibit
4 being admitted.

5 JUDGE MORAN: With that cross -- Peoples Gas
6 North Shore Cross Exhibit Pearce No. 25 is
7 admitted.

8 (Whereupon, NS-PGL Cross
9 Exhibit No. 25 was
10 marked for identification
11 and admitted into evidence
12 as of this date.)

13 JUDGE MORAN: And is there any other reason to
14 hold the witness?

15 MR. FEELEY: Nothing from staff.

16 JUDGE MORAN: Okay, thank you Ms. Pearce, you are
17 excused.

18 (Witness excused.)

19 MR. RATNASWAMY: So, your Honor, we have two
20 updates on cross examination times, most of which
21 are reductions. I don't know if there are any
22 other updates that anyone has for tomorrow.

1 JUDGE MORAN: Is that for tomorrow? Please.

2 MR. RATNASWAMY: For Mr. Efron, the cross by
3 utilities reducing the estimate to 45 minutes at
4 this time. I might have a further reduction, but
5 it's just hard for me to stay at the moment. And
6 then for Mr. Stoller, we would reduce our cross
7 examination time to 20 minutes.

8 JUDGE MORAN: Is Mr. Stoller in person tomorrow?

9 MR. FEELEY: He had planned on being here in
10 person. Do you still want him in person?

11 MR. RATNASWAMY: Honestly the person who is going
12 to conduct the examination indicated that they
13 thought it would be optimal if he were in person.

14 MR. FEELEY: He will be driving up or taking the
15 plane, but I think he'll be here 10:30, 11:00,
16 something like that.

17 MR. RATNASWAMY: So that does reduce the
18 estimates below, I believe, 3 hours for tomorrow.

19 JUDGE MORAN: Let me ask another question, since
20 staff is telling me that Mr. Stoller is driving in
21 or flying, would he be driving back tomorrow or
22 will he be saying over.

1 MR. FEELEY: The plan was for him to go back the
2 same day.

3 JUDGE MORAN: Okay, in that case, if he does
4 drive in, I would like to take him right away, so
5 that -- do you understand what I'm saying?

6 MR. RATNASWAMY: It hadn't been socialized, but
7 staff had indicated, asked us if we were willing to
8 move him up or down.

9 JUDGE MORAN: And I would like to do that if
10 you're willing.

11 MR. RATNASWAMY: We just need to tell the person
12 who is doing it.

13 JUDGE MORAN: Maybe you can tell the person who
14 is doing the cross of our plan.

15 MR. RATNASWAMY: And did you say first or just
16 depends?

17 JUDGE MORAN: When he gets here, when he comes in
18 and when he's set up, I don't know if he needs set
19 up time. But since he's the one that's traveling
20 the most, well, I guess Mr. Effron, too.

21 MR. RATNASWAMY: Do you have a preference for in
22 person?

1 MS. MUNSCH: No. I actually just said
2 Mr. Stoller we would be willing to do it by video.
3 MR. RATNASWAMY: We're checking, I don't know if
4 you want to say off the record or on the record.
5 JUDGE MORAN: We can go off the record on this.
6 (Discussion off the record.)
7 MR. RATNASWAMY: Another thing is we're
8 working -- we're going to send to the parties a
9 draft outline for the initial brief. It's not
10 ready yet, because some issues have gone from
11 contested to uncontested, so we keep having to
12 change.
13 JUDGE MORAN: Good, because that was going to be
14 on our list for Friday. We'll have some briefing
15 tips, too.
16 MR. RATNASWAMY: So I don't know if we'll have a
17 consensus on it by Friday, but we should have a
18 draft by Friday that we can have people looking at.
19 JUDGE MORAN: Very good, that's excellent.
20 MR. FEELEY: What time do you want to start
21 tomorrow, then?
22 JUDGE MORAN: Let's still start at 9:30 because

1 we do have Mr. Effron, the out-of-town witness. Is
2 that okay with everyone? I mean, if you really
3 want to change it, but. Okay, we'll just continue
4 this until tomorrow until 9:30 a.m.

5 (Whereupon the above-entitled
6 matter was continued to August
7 27th, 2009 at 9:30 a.m.)

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